Suncorp-Metway Limited

(ABN 66 010 831 722)

Disclosure Report (U.S. Version)
for the Fiscal Year ended June 30, 2013 and
the Half Year ended December 31, 2013

Dated: March 10, 2014

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CERTAIN DEFINITIONS

In this Disclosure Report (U.S. Version) for the Fiscal Year ended June 30, 2013 and the Half Year ended December 31, 2013 (this "Report"), unless otherwise specified or the context otherwise requires:

- "*AASBs*" means the Australian Accounting Standards (including Australian interpretations), adopted by the Australian Accounting Standards Board, which are equivalent to IFRS;
- "*ABN*" means Australian Business Number;
- "*ACCC*" means the Australian Competition and Consumer Commission;
- "*ADI*" means an institution that is an authorized deposit-taking institution under the Australian Banking Act and regulated as such by APRA;
- "*Anti-Money Laundering Legislation*" means the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 of the Commonwealth of Australia, the Anti-Money Laundering and Counter-Terrorism Financing Rules Instrument 2007 (No. 1) of the Commonwealth of Australia and the Anti-Money Laundering and Counter-Terrorism Financing Regulations 2008 No. 2 of the Commonwealth of Australia;
- "*APRA*" means the Australian Prudential Regulation Authority and its successors;
- "*APS330*" means APRA's Prudential Standard APS330 relating to the public disclosure of information by ADIs of their risk management practices and capital adequacy;
- "*ASIC*" means the Australian Securities and Investments Commission and its successors;
- "*ASX*" means the Australian Securities Exchange operated by ASX Limited (ACN 008 624 691) and its successors;
- "*Australian Banking Act*" means the Banking Act 1959 of the Commonwealth of Australia;
- "*Australian Corporations Act*" means the Corporations Act 2001 of the Commonwealth of Australia;
- "*Australian Financial Services Reform Act*" means the Financial Services Reform Act 2001 of the Commonwealth of Australia;
- "*AUSTRAC*" means the Australian Transaction Reports and Analysis Centre;
- "*A$*" or "*$*" means the Australian dollar and "US$" means the U.S. dollar;
- "*Bank*", "*we*", "*our*" and "*us*" each means Suncorp-Metway Limited (ABN 66 010 831 722), and its controlled entities;
- "*Banking Platform Project*" means the Bank's project to modernize and simplify its operational systems, which commenced in 2011;
- "*BCBS*" means the Basel Committee on Banking Supervision;

- "*Commonwealth*" means the Commonwealth of Australia;

- "*controlled entities*" means those entities (including special purpose entities) over which another part has the power to govern, directly or indirectly, decision making in relation to financial and operating policies, so as to require that entity to conform with such controlling party's objections;

- "*Core Bank*" means the assets and operations of the Bank excluding the Non-Core Bank;

- "*Exchange Act*" means the U.S. Securities Exchange Act of 1934, as amended;

- "*IFRS*" means the International Financial Reporting Standards, as issued by the International Accounting Standards Board;

- "*LVR*" means loan-to-value ratio;

- "*NOHC*" means an authorized non-operating holding institution of an ADI;

- "*NOHC Restructure*" means the reorganization of Suncorp-Metway Limited pursuant to a scheme of arrangement effective January 7, 2011;

- "*Non-Core Bank*" means the assets and operations of the Bank in connection with the Non-Core Portfolio;

- "*Non-Core Portfolio*" means a portfolio of loans attributable to the former Corporate Banking, Development Finance, Property Investment and Lease Finance divisions of the Bank that, commencing in 2009, the Bank commenced a program to run off over time;

- "*RBA*" means the Reserve Bank of Australia;

- "*Report*" means this Disclosure Report (U.S. Version) for the Fiscal Year ended June 30, 2013 and the Half Year ended December 31, 2013;

- "*SEC*" means the U.S. Securities and Exchange Commission;

- "*SME*" means small- to medium-sized enterprise;

- "*Suncorp*" and the "*Group*" each means Suncorp Group Limited (ABN 66 145 290 124) and its controlled entities, including the Bank;

- "*Suncorp Bank*" means the banking business unit of the Group that comprises the Bank;

- "*Suncorp Corporate Services*" means Suncorp Corporate Services Pty Ltd;

- "*Supplemental Information on the Directors, Management, Executive Remuneration, Corporate Governance and Risk Management Policies of Suncorp-Metway Limited and its Subsidiaries*" means the document so entitled, which is incorporated by reference and has been posted on our U.S. Investors' Website;

- "*US GAAP*" means U.S. generally accepted accounting principles;

- "*U.S. Investors' Website*" means Bank's U.S. investors' website at http://www.suncorpbank.com.au/usinvestors;

- "*2011 annual financial statements*" means our consolidated financial statements for the Fiscal Year ended June 30, 2011, which have been audited by our external auditors in accordance with Australian Auditing Standards, contained in our 2012 Annual Report;

- "*2012 annual financial statements*" means our consolidated financial statements for the Fiscal Year ended June 30, 2012, which have been audited by our external auditors in accordance with Australian Auditing Standards, contained in our 2012 Annual Report;

- "*2012 Annual Report*" means our Annual Report for the Fiscal Year ended June 30, 2012, extracts of which are incorporated by reference and have been posted on our U.S. Investors' Website;

- "*2013 annual financial statements*" means our consolidated financial statements for the Fiscal Year ended June 30, 2013, which have been audited by our external auditors in accordance with Australian Auditing Standards, contained in our 2013 Annual Report;

- "*2013 Annual Report*" means our Directors' Report and Consolidated Financial Report for the Fiscal Year ended June 30, 2013, extracts of which are incorporated by reference and have been posted on our U.S. Investors' Website;

- "*2013 interim financial statements*" means our consolidated interim financial statements for the Half Year ended December 31, 2012, which have been reviewed by our external auditors in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, contained in our 2014 Interim Financial Report;

- "*2014 Interim Financial Report*" means our Consolidated Interim Financial Report for the Half Year ended December 31, 2013, extracts of which are incorporated by reference and have been posted on our U.S. Investors' Website; and

- "*2014 interim financial statements*" means our consolidated interim financial statements for the Half Year ended December 31, 2013, which have been reviewed our external auditors in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, contained in our 2014 Interim Financial Report;

The Bank's fiscal or financial year ends on June 30, so references to years such as 2013, 2012 and 2011 and like references in the discussion of the Bank's financial statements, results of operations and financial condition are to the Fiscal Year ended on June 30 of each such year. References to half years, interim periods and like references are to the Half Years ended on December 31 of the preceding year of the fiscal period.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report contains statements that constitute "forward-looking statements" within the meaning of Section 21E of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"). Examples of these forward-looking statements include, but are not limited to (i) statements regarding the Bank's future results of operations and financial condition, (ii) statements of plans, objectives or goals, including those related to the Bank's products or services, and (iii) statements of assumptions underlying those statements. Words such as "may," "will," "expect," "intend," "plan," "estimate," "anticipate," "believe," "continue," "probability," "risk," and other similar words are intended to identify forward-looking statements but are not the exclusive means of identifying those statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. The Bank cautions readers that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- the effects of competition in the geographic and business areas in which the Bank conducts operations or which it may enter in the future;
- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices, and government policy, including as a result of the regulatory proposals for reform of the banking industries in Australia;
- changes in the conditions in the global credit and capital markets, including inflation, interest rates, exchange rates, market and monetary fluctuations, commodity prices and consumer confidence;
- the Bank's ability to adequately fund its operations and satisfy its liquidity requirements;
- changes in the credit ratings assigned to the Bank;
- changes in the borrowing tendencies in the Australian housing market and volatility of the Australian property market;
- changes in the general economic and financial conditions in Australia and globally;
- the effect of increases in defaults in the Bank's credit exposures from residential mortgages and derivative contracts over debt securities;
- the effectiveness of risk management strategies implemented by the Bank, including technological changes and initiatives to address certain operational risks;
- the effect of catastrophic events on the Bank and its operations;
- the impact of reputational damage on the Bank;
- the performance and financial condition of the Group and members of the Group that are not part of the Bank; and
- various other factors beyond the Bank's control, including those discussed under "Risk Factors" and "Management's Discussion and Analysis of Results of Operation and Financial Condition".

The foregoing list of factors is not exhaustive. Statements that include forward-looking statements reflect the Bank's current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of the risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Report as anticipated, believed, estimated, expected or intended.

Forward-looking statements are based upon management's good faith assumptions relating to the financial, market, regulatory and other relevant environments that will exist and affect the Bank's business and operations in the future. The Bank cannot give investors any assurance that the assumptions upon which management based its forward-looking statements will prove to be correct, or that the Bank's business and operations will not be affected in any substantial manner by other factors not currently foreseeable by management or beyond its control. Any forward-looking statements contained in this Report speak only as of the date of this Report. The Bank is under no obligation, and disclaims any obligation, to update or alter its forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Report.

EXCHANGE RATES

The Bank publishes its financial statements in Australian dollars and its fiscal year ends on June 30 of each year. For your convenience, the following table sets forth, for the years and months indicated, the period-end, average, high and low noon buying rates in New York City for cable transfers of Australian dollars as certified for customs purposes for the Federal Reserve Bank of New York, expressed in US dollars per A$1.00.

In providing these translations, the Bank is not representing that the Australian dollar amounts actually represent these US dollar amounts or that the Bank could have converted those Australian dollars into US dollars.

Unless otherwise indicated, conversions of Australian dollars to US dollars in this Report have been made at the noon buying rate at the close of business on December 31, 2013, which was US$0.8929 per A$1.00. The noon buying rate at the close of business on February 28, 2014 was US$0.8933 per A$1.00.

Fiscal Year ended June 30,	**Period End**	**Average Rate[1]**	**High**	**Low**
2009	0.8055	0.7423	0.9797	0.6073
2010	0.8480	0.8837	0.9369	0.7751
2011	1.0732	1.0001	1.0970	0.8380
2012	1.0236	1.0388	1.1026	0.9453
2013	0.9165	1.0222	1.0591	0.9165

Month ended	**Period End**	**Average Rate(1)**	**High**	**Low**
September 2013	0.9342	0.9303	0.9444	0.9055
October 2013	0.9471	0.9519	0.9705	0.9366
November 2013	0.9125	0.9324	0.9518	0.9072
December 2013	0.8929	0.8981	0.9150	0.8858
January 2014	0.8743	0.8858	0.9053	0.8715
February 2014	0.8933	0.8974	0.9045	0.8777

(1) The average of the noon buying rates on the last day of each month during the period.

AUSTRALIAN EXCHANGE CONTROL RESTRICTIONS

The Australian dollar is convertible into US dollars at freely floating rates, subject to the sanctions described below. The Autonomous Sanctions Regulations 2011 promulgated under the Autonomous Sanctions Act 2011, the Charter of the United Nations Act 1945 of Australia, and other laws and regulations in Australia restrict or prohibit payments, transactions and dealings with assets having a prescribed connection with certain countries or named individuals or entities subject to international sanctions or associated with terrorism or money laundering.

The Australian Department of Foreign Affairs and Trade maintains a list of all persons and entities having a prescribed connection with terrorism and a list of all persons and entities that are subject to autonomous sanctions (which include economic sanctions) which is available to the public at the Department's website at http://www.dfat.gov.au/icat/UNSC_financial_sanctions.html.

FINANCIAL INFORMATION PRESENTATION

The Bank's 2014 interim financial statements include the Bank's financial statements as at and for the Half Years ended December 31, 2013 and 2012. The Bank's 2013 annual financial statements include the Bank's financial statements as at and for the Fiscal Years ended June 30, 2013 and 2012, which have been audited by our external auditors in accordance with Australian Auditing Standards. The Bank's 2012 annual financial statements include the Bank's financial statements as at and for the Fiscal Years ended June 30, 2012 and 2011, which have been audited by our external auditors in accordance with Australian Auditing Standards.

The Bank's financial statements contained or incorporated by reference in this Report have been prepared in accordance with the Australian Corporations Act 2001 and AASBs, which comply with IFRS. Investors should be aware that AASBs differ in certain material respects from Generally Accepted Accounting Principles in the United States ("US GAAP"), and such differences may be material to the financial information contained or incorporated by reference in this Report or elsewhere. The Bank has not provided a quantitative reconciliation or narrative discussion of any of those differences in this Report. Investors should consult their own professional advisors for an understanding of the differences between AASBs and US GAAP and how those differences might affect the financial information contained or incorporated by reference in this Report and, more generally, the financial results of the Bank going forward.

The Bank has presented its consolidated statements of financial position as at December 31, 2013 and 2012 and as at June 30, 2013, 2012 and 2011 and its consolidated statements of comprehensive income and statements of cash flow for the Half Years ended December 31, 2013 and 2012 and for the Fiscal Years ended June 30, 2013, 2012 and 2011 as they are presented in the Bank's 2014 interim financial statements, 2013 annual financial statements, 2012 annual financial statements and 2011 annual financial statements, as applicable. All other tables (except those relating to the Bank's regulatory capital which are presented in accordance with the Bank's APS 330 reports) are presented on the same basis as the Bank's 2014 interim financial statements, 2013 annual financial statements, 2012 annual financial statements and 2011 annual financial statements, as applicable, except that, consistent with the Bank's other public disclosures, they do not include the Bank's exposures to, or transactions with, related parties within the Group and they make an allocation between the Core Bank and Non-Core Bank. For more information, see note 10 to the Bank's 2014 interim financial statements, note 15 to the Bank's 2013 annual financial statements, note 14 to the Bank's 2012 annual financial statements and 2011 annual financial statements and "Suncorp-Metway Limited — Relationship between the Group and the Bank".

The significant accounting policies adopted by the Bank are as reported in Note 3 to each of the Bank's 2014 interim financial statements, 2013 annual financial statements and 2012 annual financial statements.

During the Fiscal Year ended June 30, 2013, the Bank changed its reporting of collateral received on derivative asset positions and collateral posted on derivative liability positions to better reflect the nature of the assets and liabilities. This change has been reflected in the Bank's consolidated statements of financial position as at December 31, 2013 and June 30, 2013. For comparability purposes, the Bank's consolidated statements of financial position as at December 31, 2012 and June 30, 2012 have been restated, resulting in an increase in the Bank's receivables due from other banks of A$907 million and A$1.89 billion, respectively, a corresponding decrease in the Bank's loans, advances and other receivables of A$907 million and A$1.89 billion, respectively, an increase in the Bank's payables due to other banks of A$14 million and A$23 million, respectively and a corresponding decrease in the Bank's deposits and short-term borrowings of A$14 million and A$23 million, respectively. See Note 3.2 to the Bank's 2014 interim financial statements and Note 2 to the Bank's 2013 annual financial statements. The Bank is not required to adjust, and has not adjusted, its consolidated statement of financial position as at June 30, 2011.

During the Fiscal Year ended June 30, 2013, the Bank changed its disclosure with respect to the treatment of losses on sale related to the Non-Core Portfolio. In connection with the disposal of a significant proportion of the Non-Core Portfolio with a book value of $1.6 billion in June 2013, the Bank recognized a loss on the sale of loans and advances of A$527 million for the Fiscal Year ended June 30, 2013. For comparability purposes, losses on the sale of loans and advances for the Fiscal Year ended June 30, 2012 have been restated, resulting in an impairment expense of A$27 million for the Fiscal Year ended June 30, 2012 and a corresponding adjustment in other operating income of A$27 million. For more information, see also Notes 2 and 16.3 to the Bank's 2013 annual financial statements and Note 11.3 to the Bank's 2014 interim financial statements.

NOHC Restructure

Prior to January 7, 2011, Suncorp-Metway Limited was the parent company of what is now the Group's general insurance, banking, life insurance and superannuation businesses. On December 15, 2010, the shareholders of Suncorp-Metway Limited approved the NOHC Restructure pursuant to which shareholders of Suncorp-Metway Limited agreed to transfer their ordinary shares in Suncorp-Metway Limited to a new non-operating holding company, Suncorp Group Limited, in exchange for ordinary shares in that company, which occurred in conjunction with a series of internal restructuring transactions. See "Suncorp-Metway Limited — Reorganization" for further information, including diagrams showing the corporate structure of the Group and the Bank prior to, and following, the NOHC Restructure.

Following implementation of the NOHC Restructure, effective January 7, 2011, the Bank became a wholly owned subsidiary of Suncorp Group Limited, a new ASX-listed company which became the parent entity of the Group. The general insurance and life insurance subsidiaries that were transferred to the Group as part of the NOHC Restructure were disclosed as discontinued operations within the Bank's consolidated results for the Fiscal Years ended June 30, 2012 and 2011 and details of the disposal are included in Note 4.2 to the Bank's 2012 annual financial statements. Except as otherwise disclosed herein, the financial information presented in this Report has been restated and re-presented to illustrate the results of operations of these subsidiaries as discontinued operations.

SUMMARY

The following is a summary of certain information contained elsewhere in this Report. It does not contain all the information that may be important and is qualified in its entirety by the more detailed information appearing elsewhere in this Report. You should read this Report in its entirety, particularly the "Risk Factors" section and the financial statements and the notes related thereto.

Overview

The Bank was founded in 1902 as the Queensland Agricultural Bank and has provided banking services to individuals, small- to medium-sized enterprises ("SMEs") and agribusiness in regional communities of Australia for more than 110 years. The Bank is an ADI regulated by APRA and is headquartered in Brisbane, Australia. It is a wholly-owned subsidiary of Suncorp Group Limited, a diversified financial institution and among the top 20 largest companies listed on the ASX with a market capitalization of A$16.0 billion (US$14.3 billion) as at March 7, 2014.

The Bank is one of Australia's largest regional banks with A$49.6 billion of gross loans, advances and receivables as at December 31, 2013. It services more than one million individual, agribusiness, small-to-medium businesses and commercial banking customers, primarily in Queensland. The Bank provides a range of financial services and simple banking products, which include:

- Personal banking, including home and personal loans, savings and transaction accounts, margin lending, credit cards and foreign currency services;
- Commercial/SME banking, including small business banking and financial solutions for SMEs; and
- Agribusiness banking, including financial solutions and serviced relationship management for rural producers and associated businesses in rural and regional areas.

Following the global financial crisis, the Group undertook a strategic review of its operations and determined to focus on the Bank's core operations in the relatively lower risk lending businesses of retail, agribusiness and commercial/SME and to run off its Non-Core Portfolio. The Non-Core Portfolio consisted of A$18 billion in corporate, development finance and property investment loans. In 2009, the Bank commenced a program to run down the Non-Core Portfolio in an orderly fashion through organic run off and loan sales. In June 2013, the Bank sold a substantial portion of the Non-Core Portfolio with a book value of A$1.6 billion, and ceased disclosing its non-core business separately from its core business commencing with the Half Year ended December 31, 2013. As at December 31, 2013, a residual portfolio of A$298 million of non-core assets remained, which is now managed as part of the overall Bank's lending portfolio. See "— Recent Developments — Reduction of Non-Core Portfolio" below for further information.

In addition to the ongoing de-risking of its businesses, the Group announced a strategic simplification program in May 2012 aimed at delivering significant cost-saving benefits across the Group through the simplification of legal, administrative and operational structures designed to make the businesses more efficient. In relation to the Bank, the project involves staged investment to:

- improve the Bank's core banking platform, known as the Banking Platform Project, by modernizing and simplifying the Bank's operational systems, which is intended to bring significant business benefits and have a positive impact on its customers and the Bank's profitability;

- expand its branch network, leveraging its longstanding agribusiness experience in Queensland to other states in Australia and further developing its digital distribution channels; and

- enhance the Bank's risk and capital management program toward attaining Basel II advanced accreditation.

These initiatives are discussed further under "— Business Strategy" below.

As at December 31, 2013, the Bank had A$60.6 billion in total assets and approximately 215 offices, branches and agencies across Australia. The Bank reported a net profit before tax of A$149 million for the Half Year ended December 31, 2013, compared with a net loss of A$484 million for the Fiscal Year ended June 30, 2013 and a net profit before tax of A$33 million for the Fiscal Year ended June 30, 2012. See "Management's Discussion and Analysis of Results of Operation and Financial Condition — Results of Operations" for further information.

Prior to the NOHC Restructure, Suncorp-Metway Limited was the parent company of what is now the Group's general insurance, banking, life insurance and superannuation businesses. The NOHC Restructure was implemented to improve capital flexibility as well as to simplify the legal structure of the Group and was approved by the shareholders of Suncorp-Metway Limited on December 15, 2010. Following the NOHC Restructure, which was effective January 7, 2011, the Bank became a wholly owned subsidiary of Suncorp Group Limited, a new ASX-listed company, which became the parent entity of the Group. Although the Bank's ordinary shares are no longer listed on ASX, it has floating rate capital notes listed on ASX and, accordingly, the Bank currently remains subject to the disclosure and other requirements of ASX as they apply to companies with ASX listed debt securities. See "Suncorp-Metway Limited — Reorganization" for further information, including diagrams showing the corporate structure of the Group, Suncorp-Metway Limited and the Bank prior to, and following, the NOHC Restructure.

The Bank's registered office is located at level 18, Suncorp Centre, 36 Wickham Terrace, Brisbane, Queensland 4000 and its telephone number is +61 7 3835 5355.

Business Strategy

The Group is focused on building its 'One Company. Many Brands' model across Australia and New Zealand and demonstrating that operating as a fully integrated entity delivers more benefits through scale to stakeholders than operating as independent businesses. As a wholly owned subsidiary of the Group, the Bank benefits from the Group's scale and seeks to leverage the customer relationships across the Group to grow its business in Australia.

The Bank principally operates as a regional bank and seeks to grow its business in its principal market of Queensland, as well as in Western Australia, New South Wales and Victoria, through delivering the product range, access options and capability of a major bank with the customer service focus of a smaller regional bank. The Bank intends to continue to grow its business in Queensland and interstate in retail banking and in business banking, specifically in its core target customer groups of agribusinesses and SMEs. The Bank seeks to achieve its goals with the following key strategies:

Geographic diversification. The Bank intends to continue to strategically expand its branch network and customer base outside of Queensland, particularly in New South Wales and Western Australia, where it has increased its presence since 2010. As part of this strategy, the Bank has strengthened its relationships with mortgage brokers in New South Wales and Western Australia, grown its network of branches outside of Queensland and continues to leverage its longstanding agribusiness experience in Queensland to further develop the business outside of Queensland.

Implementation of the Banking Platform Project. The Bank is continuing the implementation of its Banking Platform Project, a modernization and simplification of the Bank's operational systems that the Bank expects will bring significant business benefits. The Bank expects that these technology improvements will create a point of difference to its competitors and enable the Bank to further develop more innovative digital capabilities in a competitive market.

Enhancing risk and capital management. The Bank is further enhancing its risk and capital management capabilities, and in particular, working toward attaining Basel II advanced accreditation from APRA for its risk management systems. The Bank expects these changes will enable it to compete more effectively with the major banks and broaden its product range, in particularly in the lower LVR lending market. The Bank's efforts to achieve Basel II advanced accreditation are also expected to assist in the improvement of the quality of its loan portfolio. The process of achieving Basel II advanced accreditation involves the assessment and modelling of risk across the Bank, including its credit risk, market risk, interest rate risk in its banking book, and operational risk. The aim of the process is to fundamentally change the way the Bank measures, monitors and manages risk, as well as improving its ability to calculate risk/return dynamics, to price risk more effectively and to manage capital more efficiently, thereby enabling the Bank to compete more effectively in its chosen markets. The program also seeks to embed a culture of robust understanding of the Bank's risks in its personnel so that appropriate data is captured and prudent risk decisions are made.

Ongoing quality improvements in the Bank's loan portfolio. In June 2013, the Bank sold a substantial portion of the Non-Core Portfolio with a book value of A$1.6 billion, and ceased disclosing its non-core business separately from its core business commencing with the Half Year ended December 31, 2013. The Bank now holds a residual portfolio of A$298 million of non-core assets, which is managed as part of the overall Bank's lending portfolio. See "— Recent Developments — Reduction of Non-Core Portfolio" for further information. The Bank is focused on further improving the quality of its loan portfolio through reducing concentrations of loans in particular businesses, such as high LVR residential mortgage lending, and improving lending standards and credit assessment procedures.

The Bank is currently working towards Basel II advanced accreditation. Advanced accreditation is expected to support ongoing improvement in the quality of the Bank's statement of financial position through delivering an enhanced understanding and management of risk and capital. There are nine pre-requisite capabilities, underpinned by robust data and risk models, that the Bank must develop and exhibit prior to APRA granting Basel II advanced accreditation status. "See "Suncorp-Metway Limited – Business Strategy" for further detail.

Upon achievement of Basel II advanced accreditation status, expected benefits include the ability to price risk more effectively and manage capital more efficiently, enabling the Bank to better compete in its chosen markets.

Growing deposits. The Bank seeks to support lending growth by maintaining a 60 to 70% deposits-to-loans ratio. The Bank intends to achieve the targeted deposit to lending range by continuing to deliver a strong service proposition to its Queensland customer base, while diversifying its retail distribution footprint and capability outside of Queensland, primarily in New South Wales and Western Australia. This approach has delivered strong deposit growth to date, with overall deposit balances increasing by 7% between December 31, 2012 and December 31, 2013. The Bank expects that these strategies will enable it to continue to match the funding of its lending activities predominantly with retail deposits and long-term wholesale funding.

Simplification. The Bank plans to further simplify its operations through a branch and distribution optimization program that aims to balance investment between digital and physical distribution channels to meet customers changing needs and transaction habits. The Bank has enabled its staff to employ flexible working strategies in order to increase employee satisfaction and engagement, while reducing the Bank's overall requirement for prime office space. The Bank has

undertaken a commercial and agribusiness banking transformation program that has sought to standardize processes around best practice and to move processing work and back office operations to partner organizations.

Business Strengths

The Bank believes that its key competitive strengths include:

Big enough, but small enough. The Bank believes its competitive advantage is that it delivers the product range, access options and capability of a major bank with the customer service focus of a smaller regional bank. The Bank has a comparable retail banking product offering to the major Australian banks in the areas where it competes, including personal, agribusiness, small business and commercial banking, and has received a number of awards for such product offerings, as well as for its customer service.

Efficiency and scale. The Bank uses the Group's infrastructure and services to more effectively manage its costs. Suncorp Business Services, a member of the Group, provides integrated shared services across the Group These shared services include information technology, human resources, business services, company secretarial and investor relations, media relations and corporate communications, taxation, group risk management and other Group-wide services and business shared services. In addition, the increased level of investment in technology by the Group provides access to technology and resources that would be difficult to be sustained purely at the Bank level. For example, the ongoing rollout of the Banking Platform Project is continuing to improve the Bank's online platform, enhance efficiencies in reporting functions and improve data analysis and provide scale advantages when dealing with suppliers. See "Suncorp-Metway Limited — Relationship between the Group and the Bank" for further information.

Improved stability of funding sources. Since the global financial crisis, the Bank has improved the stability of its funding profile by increasing the proportion of retail deposits to lending assets as a funding source from 53% as at June 30, 2010 to 66% as at December 31, 2013. The Bank has also established domestic and offshore funding programs for short and long term wholesale debt. Short-term funding sources includes Australia-based sources as well as the commercial paper markets in the United States and Europe. Long-term wholesale funding options include senior unsecured debt, covered bonds and residential-mortgage backed securities in domestic and international markets. See "Management's Discussion and Analysis of Results of Operation and Financial Condition — Liquidity and Capital Resources" for further information.

Strong brand and customer relationships. The Bank believes that it benefits from the Group's portfolio of leading brands in the financial services industry and seeks to leverage the customer relationships of the Group to assist in growing its business in Australia. The Bank also believes that it benefits from the Group's strategy to encourage a customer of any member of the Group to hold multiple Group products, including the Bank's products such as deposits, transaction accounts and loans, in order to deepen relationships and strengthen loyalty to its brand and to cross-sell the Group's products and services.

Community driven culture. The Bank currently has over one million customers, capturing Australians' sense of belonging and community connection via its "Genuine Regional Bank" positioning. The Bank builds deep and extensive connections with its customers through a common platform of systems, processes, tools and behaviors that enable its people to have consistent interactions and conversations with customers. The Bank's employees have accountability for local leadership so they can be genuine contributors to local communities and understand businesses at a local level. The Bank's retail and business customer satisfaction regularly ranks ahead of the major banks in Australia. For the calendar year ended December 31, 2013, personal customer satisfaction was 84.7% compared with between 77.7% and 81.8% for the major Australian banks (Source: Roy

Morgan 2013) and business customer satisfaction was 81.2% versus 67.7% to 77.3% for the major Australian banks (Source: DBM, 2013).

Experienced Board and management team. The Group's Board, which governs the Bank, is led by its Chairman, Zygmunt Switkowski, who has been a director of the Group since December 2010 and a Director of the Bank since September 2005. Members of the Board have significant experience across financial services businesses including senior roles in banking, property development, asset management and the insurance sector. Patrick Snowball, the Managing Director and Group Chief Executive Officer of the Group, has over 20 years of experience in senior executive roles at life and non-life insurance companies. Prior to joining the Group, he was a member of the executive teams at both Norwich Union plc and Aviva plc, the world's fifth largest insurance group and the largest insurance provider in the United Kingdom. Steve Johnston, the Group Chief Financial Officer, has over 20 years of experience in senior corporate and government positions and has held a number of senior executive positions with the Group since 2006. The Bank's management team has extensive experience in financial services. John Nesbitt, the Chief Executive Officer of Suncorp Bank, has over 20 years of experience in senior finance and business positions and was formerly the Group Chief Financial Officer and Greg Bryant, the Chief Financial Officer of Suncorp Bank, has over 20 years of experience in senior finance executive positions and has held a number of senior executive positions with the Bank since 2004.

Recent Developments

Executive Team

John Nesbitt succeeded David Foster as the Chief Executive Officer of Suncorp Bank on December 9, 2013. John Nesbitt joined the Group in May 2010 as Group Chief Financial Officer. Prior to joining the Group, John held senior finance and business positions in major Australian corporations. He has also worked for PriceWaterhouseCoopers in both Australia and the United Kingdom. See the section entitled "Directors" in the Supplemental Information on the Directors, Management, Executive Remuneration, Corporate Governance and Risk Management Policies of Suncorp-Metway Limited and its Subsidiaries posted on the Bank's U.S. Investors' Website.

Reduction of the Non-Core Portfolio

Following the global financial crisis, the Group undertook a strategic review of its operations and determined to focus on the Bank's core operations in the relatively lower risk lending businesses of retail, agribusiness and commercial/SME and to run off its Non-Core Portfolio. The Non-Core Portfolio consisted of A$18 billion in corporate, development finance and property investment loans. In 2009, the Bank commenced a program to run down the Non-Core Portfolio in an orderly fashion through organic run off and loan sales.

The Non-Core Portfolio included exposures to the following businesses:

- *Property Investment.* Providing finance to non-development property investors for assets such as shopping centers, commercial offices and industrial warehouses (excluding construction projects which are classified as Development Finance);

- *Development Finance.* Providing finance property developers for a wide range of real estate developments;

- *Corporate Lending*. Managing relationships with the Bank's largest (non-property) business, and corporate customers, including provision of working capital and term finance for clients with a total borrowing requirement of more than A$25 million; and

- *Lease Finance*. A suite of leasing and rental products were offered to customers to meet their vehicle and equipment financing requirements.

As at May 31, 2013, the Non-Core Portfolio had an outstanding balance of A$2.8 billion in assets. On June 13, 2013, the Bank announced the sale of a A$1.6 billion portfolio of corporate and property assets at a weighted realization of 60 cents in the dollar. The sale was settled on July 31, 2013. In connection with the sale, the Bank recognized a loss on the sale of loans and advances of A$527 million for the Fiscal Year ended June 30, 2013.

As at December 31, 2013, the residual portfolio had A$298 million of assets from approximately 100 loans with an average loan balance of less than A$3 million. These residual loans are now managed as part of the overall Bank's lending portfolio, with a majority of these loans expected to be run down over the remainder of the Fiscal Year ended June 30, 2014.

RISK FACTORS

The Bank is subject to a variety of risks that arise out of its business. The Bank manages its ongoing business risks in accordance with its risk management policies and procedures, some of which are described in the extracts to the Bank's 2013 Annual Report attached to this Report beginning on page A-1 and in Note 32 to the Bank's 2013 annual financial statements.

The Bank faces intense competition in all aspects of its business.

The Australian banking industry is highly competitive. The Bank competes with retail and commercial banks and other financial service firms. This includes the four major banking groups, who have greater financial and other resources than the Bank and stronger market shares, and specialist competitors that may not be subject to the same capital and regulatory requirements and therefore may be able to operate at a lower cost.

If the Bank is unable to compete effectively in its businesses and markets, its market share may decline. Increased competition may also adversely affect the Bank's results of operations by losing business to its competitors or creating pressure to lower margins.

Increased competition for deposits could also increase the Bank's cost of funding and require the Bank to access other types of funding. The Bank relies on retail deposits and, to a lesser extent, commercial/SME deposits to fund a significant portion of its statement of financial position. The Bank competes principally with banks and other financial services firms for such deposits. To the extent that the Bank is not able to successfully compete for deposits, the Bank would be forced to rely more heavily on more expensive or less stable forms of funding, or reduce its lending.

The Bank has been operating in a non-advanced accredited Basel II environment for a number of years. Although the Bank's efforts to achieve Basel II advanced accreditation are expected to assist in the improvement of the quality of its loan portfolio, which would enable the Bank to hold lower levels of capital on lower risk portfolios and would also improve the potential return on capital and ability to compete in areas such as low LVR residential mortgage lending, however, there can be no assurance that the Bank will be successful in obtaining Basel II advanced accreditation in a timely manner or at all. Any delay or inability in the Bank achieving Basel II advanced accreditation may adversely affect the Bank's ability to compete with the major Australian retail banks.

The Bank is also dependent on its ability to offer products and services that satisfy evolving customer preferences, habits and sentiment. If the Bank is not successful in developing or introducing new products and services or responding or adapting to changes in customer preferences, habits and sentiment, it may lose customers to its competitors. This could adversely affect the Bank's businesses, financial performance, financial condition and prospects.

The level of competition continues to increase as the trend toward consolidation in the global financial services industry is creating competitors with broader ranges of product and services, greater geographical scope, increased access to capital, and greater efficiency and enhanced pricing power. As a result, the Bank could lose market share or be forced to reduce prices in order to compete effectively, particularly if industry participants engage in aggressive growth strategies or severe price discounting.

The Bank's businesses are highly regulated and the Bank could be adversely affected by failing to comply with existing laws and regulations.

As a bank, the Bank is subject to extensive laws and regulations, including those relating to capital, liquidity, solvency, provisioning, accounting and reporting requirements, taxation, remuneration, consumer protection, competition, bribery, anti-money laundering and counter-terrorism financing, in the various Australian states and territories in which it operates. The Bank is

also supervised by a number of different regulatory authorities which have broad administrative power over its businesses, including APRA, RBA, ASIC, ASX and ACCC. In particular, the Bank is subject to prudential supervision by APRA and is required, among other things, to comply with prescribed capital requirements.

If the Bank fails to comply with applicable laws and regulations (including those prescribed by the regulatory authorities having supervision over the Bank) and industry codes of practice, it may be subject to suspensions, restrictions or loss of operating licenses, fines and penalties or limitations on its ability to do business. An example of the broad administrative power applicable to the Bank is the power of APRA in certain circumstances to investigate the Bank's affairs or issue a direction to it (such as a direction to comply with a prudential requirement, to conduct an audit, to remove a director, executive officer or employee or not to undertake transactions). Any such suspension, restriction or loss of any operating license, fine, penalty or limitation on its ability to do business could adversely affect the Bank's reputation, businesses, financial performance, financial condition and prospects.

The Bank could be adversely affected by changes in laws, regulations and regulatory policies or by increased compliance requirements as a result of such changes.

The Bank continues to face increased supervision and regulation in Australia, particularly in the areas of funding, liquidity, capital adequacy and prudential regulation. Changes in applicable laws, regulations and regulatory policies may adversely affect how the Bank conducts its business, the profitability or size of the Bank's business activities and could expose the Bank to additional costs. In addition, there is operational and compliance risk associated with the implementation of any new laws and regulations that apply to the Bank.

Regulatory change may impact the Bank's operations by requiring it to maintain higher levels of capital, higher quality capital or increased levels of liquidity as well as place restrictions on the businesses that the Bank conducts or require the Bank to alter its product and service offerings or increase the ability of other providers to offer competing financial services and products. If regulatory change has any such effect, it could restrict the Bank's flexibility to conduct its businesses, require it to incur substantial costs and impact the profitability of one or more of the Bank's business lines. Any such costs or restrictions could adversely affect the Bank's businesses, financial performance, financial condition and prospects. An example of such a regulatory change that is currently impacting the operations of the Bank (as well as a number of other regional banks in Australia) is the additional capital the Bank is required to set aside for loans compared with those financial institutions with advanced Basel II accreditation.

Regulation is also becoming increasingly extensive and more complex, as regulators across multiple jurisdictions seek to adopt a coordinated approach, or certain jurisdictions seek to expand the territorial reach of their regulation. For example, in December 2010, the Basel Committee on Banking Supervision announced a revised global regulatory capital framework, known as Basel III. Basel III will, among other things, increase the required quality and quantity of capital held by banks and introduces new minimum standards for the management of liquidity risk. On January 1, 2013, APRA implemented a package of Basel III capital reforms for application to Australian ADIs. See "— Regulation and Supervision." These reforms include stricter eligibility criteria for capital instruments and the introduction of capital conservation and countercyclical buffers. The requirement to maintain certain levels of capital, such as "Common Equity Tier One," "Tier One" and "Total Capital", determines the level of lending activity, or alternatively, requires the issue of additional equity capital or subordinated debt. Any further changes in regulation, including changes that increase the requirements of regulatory capital could have an adverse impact on the Bank's results of operations, or the ability of the Bank to maintain or grow its current businesses.

Changes may also occur in the oversight approach of regulators. It is possible that governments in jurisdictions in which the Bank conducts business or obtains funding might revise

their application of existing regulatory policies that apply to, or impact, the Bank's businesses. Such changes may be driven by policy, prudential or political factors or for reasons relating to national interest and/or systemic stability. In addition, there are a number of general areas of potential regulatory change that could impact the Bank, including changes to accounting and reporting requirements, tax legislation, regulation relating to remuneration, privacy, consumer protection and competition legislation and bribery and anti-money laundering laws. Such changes could adversely affect the profitability of the Bank's businesses to the extent that they limit its operations or increase the cost of compliance with the revised rules and regulations. The nature, timing and impact of future regulatory changes are not predictable and are beyond the Bank's control.

The Bank may be adversely affected by increased governmental and regulatory scrutiny or negative publicity.

Governmental scrutiny from regulators, legislative bodies and law enforcement agencies with respect to matters relating to business practices, taxation, capital and liquidity management, compensation and other matters has increased dramatically in the past several years. The global financial crisis and its resulting political and public sentiment regarding financial institutions has resulted in adverse press coverage regarding financial institutions in general, as well as adverse statements or charges by regulators or other government officials, and in some cases, to increased regulatory scrutiny and investigations. Responding to such matters, regardless of the ultimate outcome, is time-consuming and expensive and can divert the time and effort of senior management from the Bank's business. Investigations, penalties and fines sought by regulatory authorities have increased substantially over the last several years, and certain regulators have been more likely in recent years to commence enforcement actions or to advance or support legislation targeted at the financial services industry. Adverse publicity, governmental scrutiny and legal and enforcement proceedings can also have a negative impact on the Bank's reputation and on the morale and performance of its employees, which could adversely affect its businesses and results of operations.

Adverse credit and capital market conditions may significantly affect the Bank's ability to meet funding and liquidity needs and may increase its cost of funding.

The Bank relies on credit and capital markets – both domestic and offshore – to fund its business and as a source of liquidity. The Bank's ability to access capital markets, liquidity and costs of obtaining funding are related to general financial and economic conditions, including short-term and long-term interest rates, inflation, monetary supply, volatility in commodities prices, fluctuations in both debt and equity capital markets, changes in foreign exchange rates, consumer confidence and the relative strength of the Australian economy. Renewed volatility or a worsening general economic climate, including in offshore markets, could adversely impact any or all of these factors. Should conditions remain uncertain for a prolonged period, or deteriorate, the Bank's funding costs may increase and may limit the Bank's ability to refinance, in a timely manner, maturing liabilities, which could adversely affect the Bank's ability to fund and grow its business or otherwise have a material impact on the Bank.

In recent years, the global credit and capital markets have experienced significant volatility, with such markets demonstrating periods of reduced liquidity, widened credit spreads and decreased price transparency. More recently, challenging market conditions have resulted from the ongoing sovereign debt concerns in Europe and concerns about U.S., Chinese and global growth, along with other developments, such as uncertainty regarding the U.S. federal debt ceiling, the U.S. federal budget, decisions with respect to "tapering" of its "quantitative easing" program by the U.S. Federal Reserve Bank and systemic reviews of the banking sector by rating agencies and regulators. Such disruptions, uncertainty or volatility in domestic or global financial markets may increase funding costs, limit the Bank's access to funding and reduce its financial flexibility.

Domestically, a shift in investment preferences of businesses and consumers away from bank deposits toward other asset or investment classes would increase the Bank's need for funding from offshore wholesale markets.

If the Bank's current sources of funding prove to be insufficient, it may be forced to seek alternative financing and/or reduce the level of its lending. The availability of such alternative financing, and the terms on which it may be available, will depend on a variety of factors, including prevailing market conditions, the availability of credit, the Bank's credit ratings and credit capacity. Even if available, the cost of these alternatives may be more expensive or on unfavorable terms, or the Bank may be unable to raise as much funding as it needs to support its business activities, which could adversely affect the Bank's results of operations, liquidity, capital resources and financial condition. There is no assurance that the Bank will be able to obtain adequate funding and do so at acceptable prices, to recover any additional costs on acceptable terms.

If the Bank is unable to source appropriate funding on acceptable terms, it may also be forced to reduce its lending or begin to sell liquid securities. There is no assurance that the Bank will be able to obtain favorable prices on some or all of the securities that it may offer for sale or in an acceptable timeframe. Such actions may adversely impact the Bank's businesses, financial performance, liquidity, capital resources, financial condition and prospects.

Adverse financial market conditions or Bank-specific circumstances may significantly affect the Bank's ability to maintain adequate levels of liquidity.

The Bank's liquidity and funding policies are designed to allow it to meet its contractual and contingent payment obligations as and when they fall due, by seeking to ensure it is able to borrow funds on an unsecured basis, has sufficient assets to borrow against on a secured basis, and has sufficient high quality liquid assets to sell to raise immediate funds without adversely affecting the Bank's net asset value. The Bank monitors and manages its liquidity and funding profile through its approved liquidity framework, which models the Bank's ability to fund under both normal conditions and during a crisis situation. See "Regulation and Supervision — Other Australian regulatory developments — Crisis management" and Note 32 to the Bank's 2013 annual financial statements for an overview of the Bank's liquidity and funding risk management framework. However, if the Bank is unable to maintain adequate levels of liquid assets, which may be due to a number of factors including significant unforeseen changes in interest rates, ratings downgrades, higher than anticipated losses on investments, disruptions in the financial markets generally or if financial markets were closed for an extended period of time, it could have adverse effects on the Bank's operations and financial condition.

Failure to maintain credit ratings could adversely affect the Bank's cost of funds, liquidity, competitive position and access to capital markets.

The Bank's credit ratings affect the cost and availability of its funding from capital markets and other funding sources and they may be important to customers or counterparties when evaluating the Bank's products and services. Therefore, maintaining quality credit ratings is important.

The credit ratings assigned to the Bank by rating agencies are based on an evaluation of a number of factors, including its financial strength, risk management controls, support from Suncorp Group Limited and structural considerations regarding the Australian financial system and the credit rating of the Australian Government. A credit rating downgrade could be driven by the occurrence of one or more of the other risks identified in this section or by other events, including changes to the methodologies used by the rating agencies to determine ratings.

A downgrade to the Bank's credit ratings could adversely affect its cost of funds and related margins, collateral requirements, liquidity, competitive position, the willingness of counterparties to transact with the Bank, and its access to capital markets. The extent and nature of these impacts

would depend on various factors, including the extent of any ratings change, whether the Bank's ratings differ among agencies (split ratings) and whether any ratings changes also impact the Bank's peers or the sector.

The Bank's business is substantially dependent on the Australian economy, including general economic conditions and other business conditions.

As the Bank conducts almost all of its business in Australia, its performance is influenced primarily by the level and cyclical nature of residential and business lending in Australia. In particular, levels of borrowing are heavily dependent on customer confidence, the state of the economy and prevailing interest rates at the time. A significant decrease in demand in the Australian housing markets or property valuations, particularly in Queensland where a substantial portion of the Bank's residential loans are concentrated, could adversely impact the Bank's residential lending activities by reducing the value of the properties held as security, causing the Bank to incur higher credit losses. In addition, the bank conducts a substantial amount of lending to agribusinesses, particularly in Queensland and New South Wales. A significant decline in the prices of agricultural commodities or in the agriculture sector generally in these two states could adversely impact the Bank's agribusiness lending activities and cause higher credit losses. Furthermore, the occurrence of any natural disasters, including droughts, floods and cyclones, may also cause an economic downturn in the areas directly or indirectly affected by the disaster and could adversely affect the ability of borrowers to make payments on loans. See also " — The Bank could suffer losses due to catastrophic events" below.

These factors are in turn impacted by both domestic and international economic conditions, natural disasters and political events, which are outside of the Bank's control. There can be no assurance that a weakening in the Australian economy and/or a weakening in the economic and business conditions of other countries will not have an adverse effect on the Bank's financial condition and on the results of its operations.

Adverse changes to the economic and business conditions in Australia and other countries such as China, India, Japan, South Korea, members of the European Union and the United States, could also negatively impact the Australian economy, the Bank's customers and the Bank's investments. For example, during 2013, domestic growth in the resources, business and household sectors in Australia slowed. Uncertainty in the outlook of the Australian economy has resulted in higher rates of savings, lower demand for credit and lower discretionary spending. Furthermore, during 2013, China's economy, on which the Australian economy (particularly in the mining and resources sectors) is strongly dependent, recorded a historically low growth rate. A continued downturn in China's economic growth could adversely affect the Australian economy (particularly the mining and resources sectors), particularly due to the two countries' significant trade relationship. All of these factors could result in reduced demand for the Bank's products and services and/or impact the Bank's investment returns, which could affect the Bank's business, financial performance, financial condition and prospects.

A systemic shock in relation to the Australian or other financial systems could have adverse consequences for the Bank or its customers or counterparties that would be difficult to predict and respond to.

There is a risk that a major systemic shock could occur that causes an adverse impact on the Australian or other financial systems. As outlined above, the financial services industry and capital markets have been, and may continue to be, affected by continuing market volatility and the outlook for global economic conditions. In recent years, there has been an increased focus on the potential for sovereign debt defaults and/or significant bank failures in the countries comprising the Euro-zone. There can be no assurance that the market disruptions in the Euro-zone, including the increased cost of funding for certain Euro-zone governments, will not spread, nor can there be any assurance that

future assistance packages will be available or sufficiently robust to address any further market contagion in the Euro-zone or elsewhere.

Any such market and economic disruptions could have an adverse effect on financial institutions such as the Bank because consumer and business spending may decrease, unemployment may rise and demand for the products and services the Bank provides may decline, thereby reducing its earnings. These conditions may also affect the ability of the Bank's borrowers to repay their loans or the Bank's counterparties to meet their obligations, causing the Bank to incur higher credit losses. These events could also result in the undermining of confidence in the financial system, reducing liquidity and impairing the Bank's access to funding and impairing its customers and counterparties and their businesses. If this were to occur, the Bank's businesses, financial performance, financial condition and prospects could be adversely affected.

The nature and consequences of any such event are difficult to predict with certainty and there can be no guarantee that the Bank would be able to respond effectively to any such event. If the Bank were not to respond effectively, its businesses, financial performance, financial condition and prospects could be adversely affected.

Declines in asset values could adversely affect the Bank's operations or profitability.

The Bank's performance is influenced by asset markets in Australia and elsewhere, including equity, property and other investment asset markets, particularly in Queensland and to a lesser extent, in New South Wales and Western Australia. Declining asset prices could impact customers and counterparties and the value of security the Bank holds against loans and derivatives which may impact its ability to recover amounts owing to it should its customers or counterparties default.

In particular, the residential, commercial and agriculture property lending sectors in Queensland, and to a lesser extent, New South Wales and Western Australia, are important businesses of the Bank. Overall, Australian property markets have been volatile, particularly in Queensland where there have been reduced asset values. Declining property valuations in Queensland or Australia generally could decrease the amount of new lending the Bank is able to write and/or increase the losses that it may experience from existing loans.

For example, a significant decrease in Australian housing market demand or property valuations, particularly in Queensland, or a significant slowdown in housing, commercial or strata title property markets due to declining property valuations, could adversely impact the Bank's residential lending activities if the value of properties held as security were to be adversely affected. This may cause the Bank to incur higher credit losses, or the demand for its lending products may decline, which could adversely affect the Bank's businesses, financial performance, capital resources, financial condition and prospects.

An increase in defaults in credit exposures could adversely affect the Bank's results of operations, liquidity, capital resources and financial condition.

Credit risk is a significant risk and arises primarily from the Bank's lending activities. The risk arises from the likelihood that some customers and counterparties will be unable to honor their obligations to the Bank, including the repayment of loans and interest. Residential mortgage loans with higher LVRs, which constitute a part of the Bank's residential mortgages portfolio, typically have default rates higher than residential mortgage loans with lower LVRs and therefore may be more acutely impacted by economic volatility. The Bank has sought to limit its exposures to defaulting higher LVR residential mortgage lending through requiring all mortgage borrowers of loans with a LVR above 80% to maintain lenders mortgage insurance with counterparties exhibiting a satisfactory risk profile. However, the Bank cannot provide any assurance that losses from defaulting residential mortgage loans would be fully covered by lenders mortgage insurance. Losses would be incurred by Suncorp on such defaulting residential mortgages where the borrower defaults, the property is realized

at a price less than the amount of the debt and the provider of lenders mortgage insurance does not honor a claim either because the basis upon which the lenders mortgage insurance is provided was deficient or because the provider of the lenders mortgage insurance is incapable of meeting a claim.

Credit risk also arises from certain derivative contracts the Bank enters into and from its dealings with, and holdings of, debt securities issued by other banks, financial institutions, companies, governments and government bodies. The financial conditions of these entities may be impacted to varying degrees by economic conditions in global financial markets.

The Bank holds collective and individually assessed provisions for its credit exposures. See Note 32 to the Bank's 2013 annual financial statements for a description of the most significant regional, business and individual credit exposures where the Bank believes there is a significant risk of loss. If economic conditions deteriorate, some customers and/or counterparties could experience higher levels of financial stress and the Bank may experience a significant increase in defaults and write-offs, and be required to increase its provisioning. Such events would diminish available capital and would adversely affect the Bank's operating results, liquidity, capital resources and financial condition.

The Bank is exposed to credit risk as a consequence of its lending activities and holds specific provisions to cover bad and doubtful debts. If these provisions prove inadequate, either because of an economic downturn or a significant breakdown in its credit disciplines, then this could have a material adverse effect on its business.

The Bank could suffer losses due to failures in risk management strategies.

The Bank has implemented risk management strategies and internal controls involving processes and procedures intended to identify, monitor and mitigate the risks to which it is subject, including liquidity risk, credit risk, market risk (including interest rate and foreign exchange risk) and operational risk. See the section entitled "Risk Management" in the Supplemental Information on the Directors, Management, Executive Remuneration, Corporate Governance and Risk Management Policies of Suncorp-Metway Limited and its Subsidiaries posted on the Bank's U.S. Investors' Website for further information on the Bank's risk management strategies. However, there are inherent limitations with any risk management framework as there may exist, or develop in the future, risks that the Bank had not anticipated or identified or controls may not operate effectively.

Market conditions in recent years have involved unprecedented dislocations and highlight the limitations inherent in using historical data to manage risk. Although the Bank believes that it has thorough and robust stress testing framework in place, there can be no assurance that the risk management processes and strategies that the Bank has developed will adequately anticipate or be effective in addressing market stress or unforeseen circumstances.

If any of the Bank's risk management processes and procedures prove ineffective or inadequate or are otherwise not appropriately implemented, the Bank could suffer unexpected losses and reputational damage which could adversely affect its business, financial performance or financial condition.

The Bank could suffer losses due to technology failures and face information security risks.

The Bank relies to a significant degree on information technology systems. Most of the Bank's daily operations are computer based and its information technology systems are essential to maintaining effective communication with customers. The Bank is exposed to a number of system risks, including complete or partial failure of the information technology systems, inadequacy of internal, partner or third party information technology systems, capacity of the existing systems to effectively accommodate the Bank's planned growth and integrate existing and future acquisitions

and alliances, systems integration programs not being completed within the timetable or budget, and compromise of information or technology arising from external or internal security threats.

The Bank has disaster recovery and systems monitoring tools and development roadmaps in place to mitigate some of these risks. However, any failure in the Bank's information technology systems could result in business interruption, the loss of customers, damaged reputation and weakening of its competitive position and could adversely affect the Bank's business.

The Bank's operations rely on the secure processing, storage and transmission of confidential and other information on its own computer systems and networks, and the systems and networks of external suppliers. Although the Bank implements measures to protect the security and confidentiality of information, there is a risk that the computer systems, software and networks on which the Bank relies may be subject to security breaches, unauthorized access, computer viruses, external attacks or internal breaches that could have an adverse security impact and compromise the Bank's confidential information or that of its customers and counterparts. Any such security breach could result in regulatory enforcement actions, reputational damage and reduced operational effectiveness.

In addition, the Bank has an ongoing need to update and implement new information technology systems, in part to assist it to satisfy regulatory demands, ensure information security, enhance computer-based banking services for the Bank's customers and integrate its various businesses. The Bank may not implement these projects effectively or execute them efficiently, which could lead to increased project costs, delays in the ability to comply with regulatory requirements, failure of the Bank's information security controls or a decrease in the Bank's ability to service its customers. The Bank is also in the process of implementing its Banking Platform Project, a modernization and simplification of the Bank's operational systems. See "Summary — Business Strategies — Implementation of the Banking Platform Project" for further information. While the Bank expects the project will bring significant business benefits that will affect its customers and profitability, the Bank cannot make any assurances that such benefits will be realized.

The Bank could suffer losses due to operational risks.

The Bank is exposed to the risk of loss resulting from human error, from inadequate or failed internal or external processes and systems or from external events. The Bank is exposed to a variety of operational risks, such as fraud and other dishonest activities, cyber-attacks, management practices, workplace safety, project and change management, compliance, business continuity and crisis management, key person, information and systems integrity.

Operational risks also include, among other things, outsourcing risks. For example, the Bank relies on a number of external service providers to provide services to itself and its customers. Although the Bank has policies and processes in place regarding outsourcing designed to mitigate and manage our outsourcing risk, failure by these suppliers to deliver services as required could result in reduced operational effectiveness, regulatory enforcement actions and reputational damage, and could adversely impact the Bank's operations and profitability.

Operational risks could impact the Bank's operations or adversely affect demand for its products and services and its reputation, which could adversely affect the Bank's businesses, financial performance and prospects. The Bank could be significantly impacted if its employees undertake unauthorized activities that are in breach of policy, regulations or community standards. If stakeholders perceive that the Bank has been behaving inappropriately, significant reputational and financial impacts could also be incurred.

The Bank maintains an operational risk management framework in order to manage its operational risk exposures. This framework aims to identify, assess and report operational risk on a consistent and reliable basis but there can be no assurance such framework will be effective.

The Bank could suffer losses due to catastrophic events.

The Bank and its customers operate businesses and hold assets in a range of geographical locations. Although the Bank believes that it holds appropriate insurance policies for its business and the Bank's customers may hold insurance policies for their assets, any significant catastrophic events or external event (including fire, storm, flood, drought, earthquake or pandemic) in any of these locations has the potential to disrupt business activities, impact the Bank's operations, damage property and otherwise affect the value of assets held in the affected locations and the Bank's ability to recover amounts owing to it. In addition, such an event could have an adverse impact on economic activity, consumer and investor confidence, or the levels of volatility in financial markets, which could adversely affect the Bank's businesses, financial performance, financial condition, capital resources or prospects.

Reputational damage could harm the Bank's business and prospects.

The Bank's ability to attract and retain customers and the Bank's prospects could be adversely affected if the Bank's or the Group's reputation is damaged.

There are various potential sources of reputational damage, including potential conflicts of interest, pricing policies, failing to comply with legal and regulatory requirements (including money laundering, trade sanctions or privacy laws), ethical issues, litigation, failure of information security systems, improper sales and trading practices, failing to comply with personnel and supplier policies, technology failures, security breaches and risk management failures. The Bank's reputation could also be adversely affected by the actions of the financial services and allied industries in general or from the actions of its customers and counterparties. In addition, although the Bank does not control those entities that are part of the Group but not of the Bank, their actions may reflect directly on the Bank's reputation and its business and business prospects could be adversely affected if any of the entities using the "Suncorp" name take actions that result in negative publicity to the Bank.

Failure to appropriately address issues that could or do give rise to reputational risk could also impact the regulatory change agenda, give rise to additional legal risk, subject the Bank to regulatory enforcement actions, fines and penalties, or harm its reputation among its customers, investors and the marketplace. This could lead to loss of business, which could adversely affect the Bank's financial performance, financial condition and prospects.

The Bank relies on services and capital provided by the Group.

Members of the Group provide shared services to the Bank pursuant to certain shared services agreements. These shared services include information technology, human resources, business services, company secretarial and investor relations, media relations and corporate communications, taxation, business improvement and strategy, group risk management, other group-wide services and business shared services. Other than exercising its rights under the shared services agreements, the Bank has no direct control over the provision of those services, the Group's continued provision of those services or the cost at which such services are provided.

The Bank has also in the past relied on capital provided by the Group in order to meet capital ratios, whether stipulated by applicable rules and regulations or set by internal policies, and expects that it will continue to do so in the future. The Bank has no direct control over whether or when such capital injections may be provided and is therefore partly dependent on the financial performance, financial condition and results of the Group and members of the Group. The failure by the Group to provide capital injections when required may adversely affect the Bank's financial performance, financial condition and prospects.

The unexpected loss of key staff or inadequate management of human resources may adversely affect the Bank's business, operations and financial condition.

The Bank's ability to attract and retain suitably qualified and skilled employees is an important factor in achieving its strategic objectives. The Chief Executive Officer of the Bank and the Group and the senior management team of the Group have skills and reputation that are critical to setting the strategic direction, successful management and growth of the Bank, and whose unexpected loss due to resignation, retirement, death or illness may adversely affect its operations and financial condition. The Bank may in the future have difficulty retaining or attracting highly qualified people for important roles, which could adversely affect its business, operations and financial condition.

Litigation, regulatory actions and contingent liabilities may adversely impact the Bank's results of operations.

The Bank may, from time to time, be subject to litigation, regulatory actions and contingent liabilities, which may adversely impact upon its results of operation and financial condition in future periods or its reputation. There is a risk that any losses may be larger than anticipated or provided for. Furthermore, even where monetary damages may be relatively small, an adverse finding in a regulatory or litigation matter could harm the Bank's reputation or brand, thereby adversely affecting its business. In addition, the Group may be subject to material litigation that could also harm the Bank's reputation or brand and adversely impact the Bank's business.

CAPITALIZATION AND INDEBTEDNESS

The following tables should be read in conjunction with the "Selected Financial Information," "Management's Discussion and Analysis of Results of Operation and Financial Condition" and the financial statements and other information appearing elsewhere or incorporated by reference in this Report.

The following table sets forth the Bank's long-term indebtedness and total capitalization as at December 31, 2013. For details on the Bank's short-term debt position and the Bank's deposit liabilities as at December 31, 2013, see "Management's Discussion and Analysis of Results of Operation and Financial Condition — Liquidity and Capital Resources" in this Report.

	As at December 31, 2013	
	(*in millions*)	
	US$[1]	*A$*
Long-term indebtedness[2]		
Securitization liabilities	3,810	4,267
Debt issuances	5,744	6,433
Subordinated notes	750	840
Preference shares	-	-
Total indebtedness	**10,304**	**11,540**
Shareholders' equity		
Issued capital	2,225	2,492
Capital notes[3]	402	450
Reserves	(253)	(283)
Retained profits	575	644
Total equity	**2,949**	**3,303**
Total capitalization[4]	**13,253**	**14,843**

(1) For purposes of this Report, currencies have been translated at the exchange rate at December 31, 2013 of US$0.8929 per A$1.00.

(2) As at December 31, 2013, A$6,463 million (US$5,771 million) of the Bank's long-term indebtedness was secured indebtedness and comprised of securitization and covered bond liabilities.

(3) The capital notes are perpetual, subordinated notes issued to Suncorp Group Limited on December 17, 2012. See Note 18 to the Bank's 2014 Interim Financial Report for further information.

(4) Total capitalization represents long-term indebtedness and shareholders' equity.

SELECTED FINANCIAL INFORMATION

The selected consolidated statement of financial position information as at June 30, 2013, 2012 and 2011 and statement of comprehensive income information for the Fiscal Years ended June 30, 2013, 2012 and 2011 presented below should be read in conjunction with the Bank's consolidated financial statements for the Fiscal Years ended June 30, 2013, 2012 and 2011, respectively, which, in each case, has been audited by the Bank's external auditors in accordance with Australian Auditing Standards. The selected consolidated statement of financial position information as at December 31, 2013 and statement of comprehensive income information for the Half Years ended December 31, 2013 and 2012 presented below have been derived from the Bank's 2014 interim financial statements and 2013 interim financial statements which, in the opinion of the Bank's management, have been prepared on the same basis as the Bank's consolidated financial statements, which have been audited by the Bank's external auditors in accordance with Australian Auditing Standards. The selected financial data for the Half Year ended December 31, 2013 are not necessarily indicative of the Bank's results for the Fiscal Year ending June 30, 2014 and the Bank's historical results are not necessarily indicative of its results for any future period.

During the Fiscal Year ended June 30, 2013, the Bank changed its reporting of collateral received on derivative asset positions and collateral posted on derivative liability positions to better reflect the nature of the assets and liabilities. This change has been reflected in the Bank's consolidated statements of financial position as at December 31, 2013 and June 30, 2013. For comparability purposes, the Bank's consolidated statements of financial position as at December 31, 2012 and June 30, 2012 have been restated, resulting in an increase in the Bank's receivables due from other banks of A$907 million and A$1.89 billion, respectively, a corresponding decrease in the Bank's loans, advances and other receivables of A$907 million and A$1.89 billion, respectively, an increase in the Bank's payables due to other banks of A$14 million and A$23 million, respectively and a corresponding decrease in the Bank's deposits and short-term borrowings of A$14 million and A$23 million, respectively. See Note 3.2 to the Bank's 2014 interim financial statements and Note 2 to the Bank's 2013 annual financial statements. The Bank is not required to adjust, and has not adjusted, its consolidated statement of financial position as at June 30, 2011.

During the Fiscal Year ended June 30, 2013, the Bank changed its disclosure with respect to the treatment of losses on sale related to the Non-Core Portfolio. In connection with the disposal of a significant proportion of the Non-Core Portfolio with a book value of A$1.6 billion in June 2013, the Bank recognized a loss on the sale of loans and advances of A$527 million for the Fiscal Year ended June 30, 2013. For comparability purposes, losses on the sale of loans and advances for the Fiscal Year ended June 30, 2012 have been restated, resulting in an impairment expense of A$27 million for the Fiscal Year ended June 30, 2012 and a corresponding adjustment in other operating income of A$27 million. For more information, see also Notes 2 and 16.3 to the Bank's 2013 annual financial statements and Note 11.3 to the Bank's 2014 interim financial statements.

The financial statements referred to above, and the financial information presented below, have been prepared in accordance with AASB, which comply with the International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board, as at the date of this Report, which vary in certain respects from US GAAP. The Bank's selected consolidated financial information presented below should also be read in conjunction with the Bank's consolidated financial statements, the sections in this Report captioned "Financial Information Presentation" and "Management's Discussion and Analysis of Results of Operation and Financial Condition" and the other financial information included elsewhere in this Report.

Selected Statement of Comprehensive Income Information

	Half Year ended December 31,			Fiscal Year ended June 30,		
	2013	**2013**	**2012**	**2013**	**2012**	**2011**
(*in millions*)	*US$*[1]	*A$*	*A$*	*A$*	*A$*	*A$*
Net interest income	**439**	**492**	**484**	**986**	**928**	**910**
Other operating income	18	20	47	60	140	132
Total net operating income	**457**	**512**	**531**	**1,046**	**1,068**	**1042**
Operating expenses	(272)	(305)	(303)	(628)	(603)	(577)
Loss on sale of loans and advances[2]	(12)	(13)	(21)	(527)	(27)	-
Impairment losses on loans and advances	(40)	(45)	(194)	(375)	(405)	(325)
Profit before income tax	**133**	**149**	**13**	**(484)**	**33**	**140**
Income tax (expense) benefit	(39)	(44)	(9)	135	(11)	(60)
Profit for the period	**94**	**105**	**4**	**(349)**	**22**	**80**

(1) For purposes of this Report, currencies have been translated at the exchange rate at December 31, 2013 of US$0.8929 per A$1.00.

(2) The loss on sale of loans and advances during the Fiscal Year ended June 30, 2013 related to the disposal of A$1.6 billion of loans in the Non-Core Portfolio in June 2013 and other costs associated with smaller transactions throughout the period. The figure for the Fiscal Year ended June 30, 2012 has been restated on the same basis to reflect an impairment expense of A$27 million for the Fiscal Year ended June 30, 2012. The resulting impact was a corresponding adjustment in other operating income from A$113 million to A$140 million for the Fiscal Year ended June 30, 2012. See "Summary — Recent Developments — Reduction of the Non-Core Portfolio" for more information about the Bank's disposal of the Non-Core Portfolio.

Selected Statement of Financial Position Information

(*in millions*)	As at December 31, 2013	As at December 31, 2013	As at June 30, 2013	As at June 30, 2012	As at June 30, 2011
	US$[1]	*A$*	*A$*	*A$*	*A$*
Assets					
Cash and cash equivalents	723	810	905	549	345
Receivables due from other banks[2]	705	790	1,460	2,044	226
Trading securities	1,901	2,129	3,462	4,787	4,952
Derivatives	403	451	667	424	233
Investment securities	5,940	6,652	6,640	6,308	5,742
Loans, advances and other receivables[2]	44,141	49,435	48,365	47,521	49,064
Property, plant and equipment	-	-	-	-	69
Other assets[3]	190	213	273	350	265
Deferred tax assets	79	88	141	241	182
Goodwill and intangible assets	23	26	26	26	29
Total assets	**54,104**	**60,594**	**61,939**	**62,250**	**61,107**
Liabilities					
Payables due to other banks[2]	166	186	213	64	31
Deposits and short-term borrowings[2]	39,821	44,597	43,861	41,521	39,247
Derivatives	441	494	984	2,369	2,583
Payables and other liabilities	423	474	755	691	880
Securitization liabilities	3,810	4,267	4,802	3,839	3,634
Debt issues	5,744	6,433	7,313	9,598	10,151
Subordinated notes	750	840	840	666	846
Preference shares	-	-	30	762	830
Total liabilities	**51,155**	**57,291**	**58,798**	**59,510**	**58,202**
Net assets	**2,949**	**3,303**	**3,141**	**2,470**	**2,905**
Equity					
Share capital	2,225	2,492	2,452	2,189	1,789
Capital notes[4]	402	450	450	-	-
Reserves	(253)	(283)	(306)	(339)	(243
Retained profits	575	644	545	890	1,359
Total equity	**2,949**	**3,303**	**3,141**	**2,740**	**2,905**

(1) For purposes of this Report, currencies have been translated at the exchange rate at December 31, 2013 of US$0.8929 per A$1.00.

(2) During the Fiscal Year ended June 30, 2013, the Bank changed its reporting of collateral received on derivative asset positions and collateral posted on derivative liability positions to better reflect the nature of the assets and liabilities. This change has been reflected in the Bank's consolidated statement of financial position as at December 31, 2013 and June 30, 2013. For comparability purposes, the Bank's consolidated statement of financial position as at June 30, 2012 has been restated, resulting in an increase in the Bank's receivables due from other banks of A$1.89 billion, a corresponding decrease in the Bank's loans, advances and other receivables of A$1.89 billion, an increase in the Bank's payables due to other banks by A$23 million and a corresponding decrease in the Bank's deposits and short-term borrowings of A$23 million. See "Financial Information Presentation" and Note 2 to the Bank's 2013 annual financial statements for further information. The Bank is not required to adjust and has not adjusted its consolidated statement of financial position as at June 30, 2011.

(3) Other assets is mainly comprised of accrued interest and prepayments.

(4) On December 17, 2012, the Bank issued A$450 million of perpetual subordinated notes to Suncorp Group Limited. See Note 25 to the Bank's 2013 annual financial statements.

Regulatory Capital and Ratios

In September 2012, APRA published final standards relating to the implementation of Basel III capital reforms in Australia. APRA has adopted a more conservative approach than the minimum standards published by BCBS and a more accelerated timetable for implementation. APRA's version of the Basel III capital reforms came into effect on January 1, 2013.

The following tables provide details of the Bank's Tier 1 and Tier 2 capital as at December 31, 2013 and June 30, 2013, 2012 and 2011, as stated in regulatory reporting terms under APS330. The capital tables as at December 31, 2013 and June 30, 2013 have been reported in accordance with the Basel III capital standards implemented by APRA which came into effect on January 1, 2013. The capital tables as at June 30, 2012 and 2011 have been presented in accordance with APRA's prior prudential capital standards. Please note that comparability of capital tables and ratios between Basel II and Basel III standards is not directly possible due to definitional and eligibility differences between the two standards.

Capital as per APRA Prudential Standards (Basel III)[1]

	As at December 31, 2013	**As at December 31, 2013**	**As at June 30, 2013**
	US$ millions[2]	*A$ millions*	*A$ millions*
Common Equity Tier 1 capital			
Common Equity Tier 1 capital before regulatory adjustments	2,469	2,765	2,618
Adjustments to Common Equity Tier 1	(230)	(258)	(286)
Common Equity Tier 1 capital	**2,239**	**2,507**	**2,332**
Additional Tier 1 capital before regulatory adjustments	402	450	480
Tier 1 capital	**2,640**	**2,957**	**2,812**
Tier 2 capital			
Tier 2 capital before regulatory adjustments	917	1,027	1,035
Adjustments to Tier 2 capital	-	-	-
Tier 2 capital	**917**	**1,027**	**1,035**
Total capital	**3,557**	**3,984**	**3,847**

(1) The regulatory table as at December 31, 2013 and June 30, 2013 have been prepared in accordance with APS330 as in effect as of December 31, 2013 and June 30, 2013.

(2) For purposes of this Report, currencies have been translated at the exchange rate at December 31, 2013 of US$0.8929 per A$1.00.

Capital as per APRA Prudential Standards (Basel II)[1]

(A$ millions)	As at June 30, 2012	As at June 30, 2011
Tier 1		
Ordinary share capital	2,189	1,789
Retained profits	517	902
Preference shares	765	823
Insurance liabilities in excess of liability valuation	-	-
Less goodwill, brands	(27)	(29)
Less software assets	(3)	-
Less other capitalized expenses	(78)	(47)
Less deferred tax asset	(159)	(129)
Less other required deductions	(4)	-
Less tier 1 deductions for investments in subsidiaries, capital support	(13)	(18)
Total tier 1 capital	**3,187**	**3,291**
Tier 2		
APRA general reserves for credit losses	221	248
Asset Revaluation Reserve	-	17
Subordinated notes	784	1,053
Excess residual tier 1	-	15
Less tier 2 deductions for investments in subsidiaries, capital support	(13)	(18)
Total tier 2 capital	**992**	**1,315**
Total capital base	**4,179**	**4,606**

(1) The regulatory table as at June 30, 2012 and 2011 have been prepared in accordance with APS330 as in effect as of June 30, 2012 and 2011.

The following table provides the Bank's capital ratios for Tier 1 capital and total capital adequacy as at December 31, 2013 and June 30, 2013:

Capital as per APRA Prudential Standards (Basel III)[1]

	As at December 31, 2013	As at June 30, 2013
Common Equity Tier 1	8.16%	7.59%
Tier 1	9.62%	9.15%
Total capital	12.97%	12.52%

(1) The regulatory table as at December 31, 2013 and June 30, 2013 have been prepared in accordance with APS330 as in effect as of December 31, 2013 and June 30, 2013.

The following table provides the Bank's capital ratios for Tier 1 and Tier 2 capital and total capital adequacy as at June 30, 2012 and 2011:

Capital as per APRA Prudential Standards (Basel II)[1]

	As at June 30, 2012	As at June 30, 2011
Total Tier 1	9.64%	9.57%
Total Tier 2	3.00%	3.83%
Total risk weighted capital ratio	12.64%	13.40%

(1) The regulatory table as at June 30, 2012 and 2011 have been prepared in accordance with APS330 as in effect as of June 30, 2012 and 2011.

Certain Performance Ratios and Statistics

		Half Year ended December 31,	Fiscal Year ended June 30,		
		2013	2013	2012	2011
Net interest margin (interest-earning assets)[1]	(%)	1.66	1.64	1.54	1.44
Cost-to-income ratio[2]	(%)	59.57	59.20	55.90	54.72
Impairment losses to gross loans and advances[3]	(%)	0.18	0.78	0.85	0.66
Impairment losses to credit risk-weighted assets[4]	(%)	0.35	1.48	1.45	1.09

(1) Calculated as ((net interest income) / (average interest earning assets)) / (number of days in period) x 365.
(2) Calculated as (operating expenses) / (total income).
(3) Calculated as ((impairment losses on loans and advances) / (average gross loans and advances)) / (number of days in period) x 365.
(4) Calculated as ((impairment losses on loans and advances) / (average credit risk-weighted assets)) / (number of days in period) x 365.

SUNCORP-METWAY LIMITED

Overview

The Bank was founded in 1902 as the Queensland Agricultural Bank and has provided banking services to individuals, SMEs and agribusinesses in regional communities of Australia for more than 110 years. The Bank is an ADI regulated by APRA and is headquartered in Brisbane, Australia. It is a wholly-owned subsidiary of Suncorp Group Limited, a diversified financial institution and among the top 20 largest companies listed on the ASX with a market capitalization of A$16.0 billion (US$14.3 billion) as at March 7, 2014.

The Bank is one of Australia's largest regional banks with A$49.6 billion of gross loans, advances and receivables as at December 31, 2013. It services more than one million individual, agribusiness, small-to-medium businesses and commercial banking customers, primarily in Queensland. The Bank provides a range of financial services and simple banking products, which include:

- Personal banking, including home and personal loans, savings and transaction accounts, margin lending, credit cards and foreign currency services;

- Commercial/SME banking, including small business banking and financial solutions for SMEs; and

- Agribusiness banking, including financial solutions and serviced relationship management for rural producers and associated businesses in rural and regional areas.

Following the global financial crisis, the Group undertook a strategic review of its operations and determined to focus on the Bank's core operations in the relatively lower risk lending businesses of retail, agribusiness and commercial/SME and to run off its Non-Core Portfolio. The Non-Core Portfolio consisted of A$18 billion in corporate, development finance and property investment loans. In 2009, the Bank commenced a program to run down the Non-Core Portfolio in an orderly fashion through organic run off and loan sales. In June 2013, the Bank sold a substantial portion of the Non-Core Portfolio with a book value of A$1.6 billion, and ceased disclosing its non-core business separately from its core business commencing with the Half Year ended December 31, 2013. As at December 31, 2013, a residual portfolio of A$298 million of non-core assets remained, which is now managed as part of the overall Bank's lending portfolio. See "— Recent Developments — Reduction of Non-Core Portfolio" below for further information.

In addition to the ongoing de-risking of its businesses, the Group announced a strategic simplification program in May 2012 aimed at delivering significant cost-saving benefits across the Group through the simplification of legal, administrative and operational structures designed to make the businesses more efficient. In relation to the Bank, the project involves staged investment to:

- improve the Bank's core banking platform, known as the Banking Platform Project, by modernizing and simplifying the Bank's operational systems, which is intended to bring significant business benefits and have a positive impact on its customers and the Bank's profitability;

- expand its branch network, leveraging its longstanding agribusiness experience in Queensland to other states in Australia and further developing its digital distribution channels; and

- enhance the Bank's risk and capital management program toward attaining Basel II advanced accreditation.

These initiatives are discussed further under "— Business Strategy" below.

As at December 31, 2013, the Bank had A$60.6 billion in total assets and approximately 215 offices, branches and agencies across Australia. The Bank reported a net profit before tax of A$149 million for the Half Year ended December 31, 2013, compared with a net loss of A$484 million for the Fiscal Year ended June 30, 2013 and a net profit before tax of A$33 million for the Fiscal Year ended June 30, 2012. See "Management's Discussion and Analysis of Results of Operation and Financial Condition — Results of Operations" for further information.

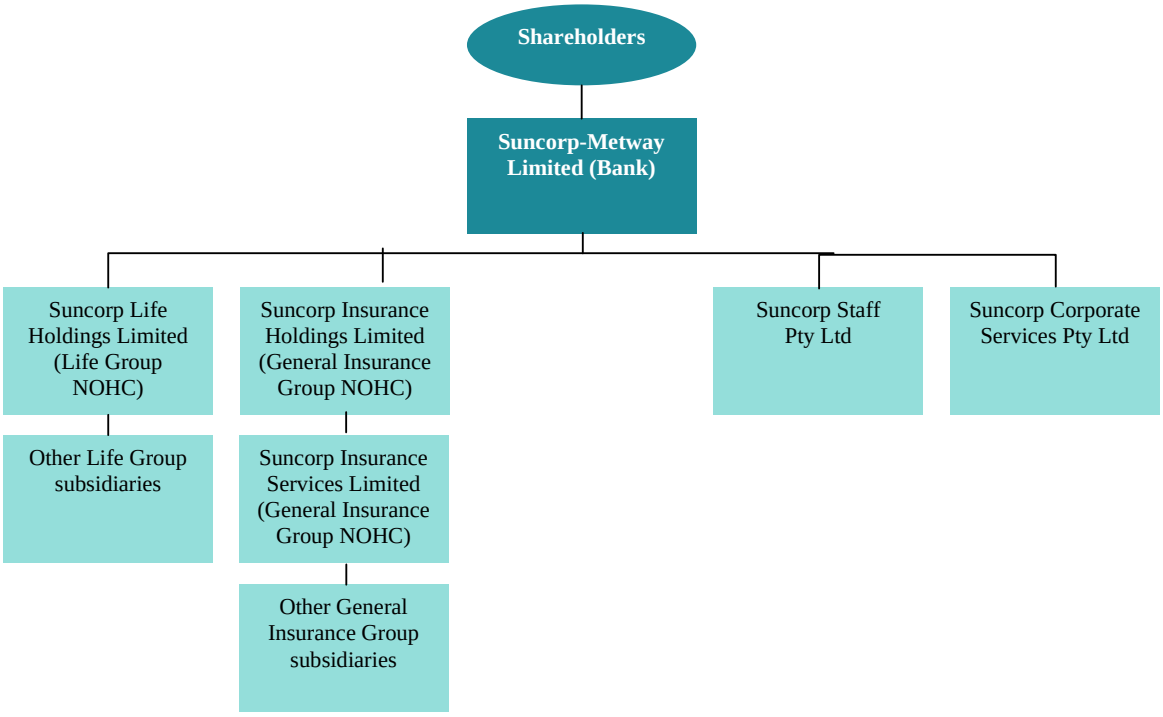
Prior to the NOHC Restructure, Suncorp-Metway Limited was the parent company of what is now the Group's general insurance, banking, life insurance and superannuation businesses. The NOHC Restructure was implemented to improve capital flexibility as well as to simplify the legal structure of the Group and was approved by the shareholders of Suncorp-Metway Limited on December 15, 2010. Following the NOHC Restructure, which was effective January 7, 2011, the Bank became a wholly owned subsidiary of Suncorp Group Limited, a new ASX-listed company, which became the parent entity of the Group. Although the Bank's ordinary shares are no longer listed on ASX, it has floating rate capital notes listed on ASX and, accordingly, the Bank currently remains subject to the disclosure and other requirements of ASX as they apply to companies with ASX listed debt securities. See "Suncorp-Metway Limited — Reorganization" for further information, including diagrams showing the corporate structure of the Group, Suncorp-Metway Limited and the Bank prior to, and following, the NOHC Restructure.

The Bank's registered office is located at level 18, Suncorp Centre, 36 Wickham Terrace, Brisbane, Queensland 4000 and its telephone number is +61 7 3835 5355.

Reorganization

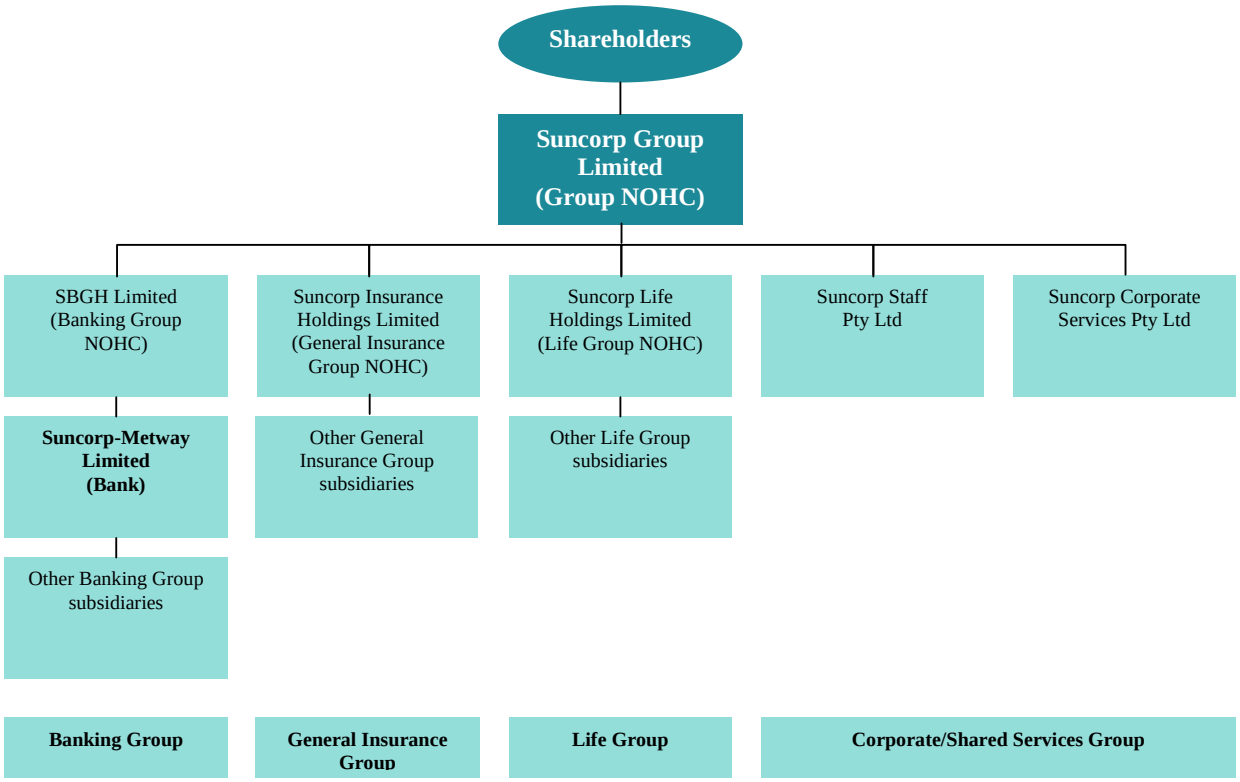
Prior to January 7, 2011, Suncorp-Metway Limited was the parent company of what is now the Group's general insurance, banking, life insurance and superannuation businesses. A simplified version of the corporate structure of the Group prior to the NOHC Restructure was as follows:

Corporate Structure of the Pre-NOHC Group

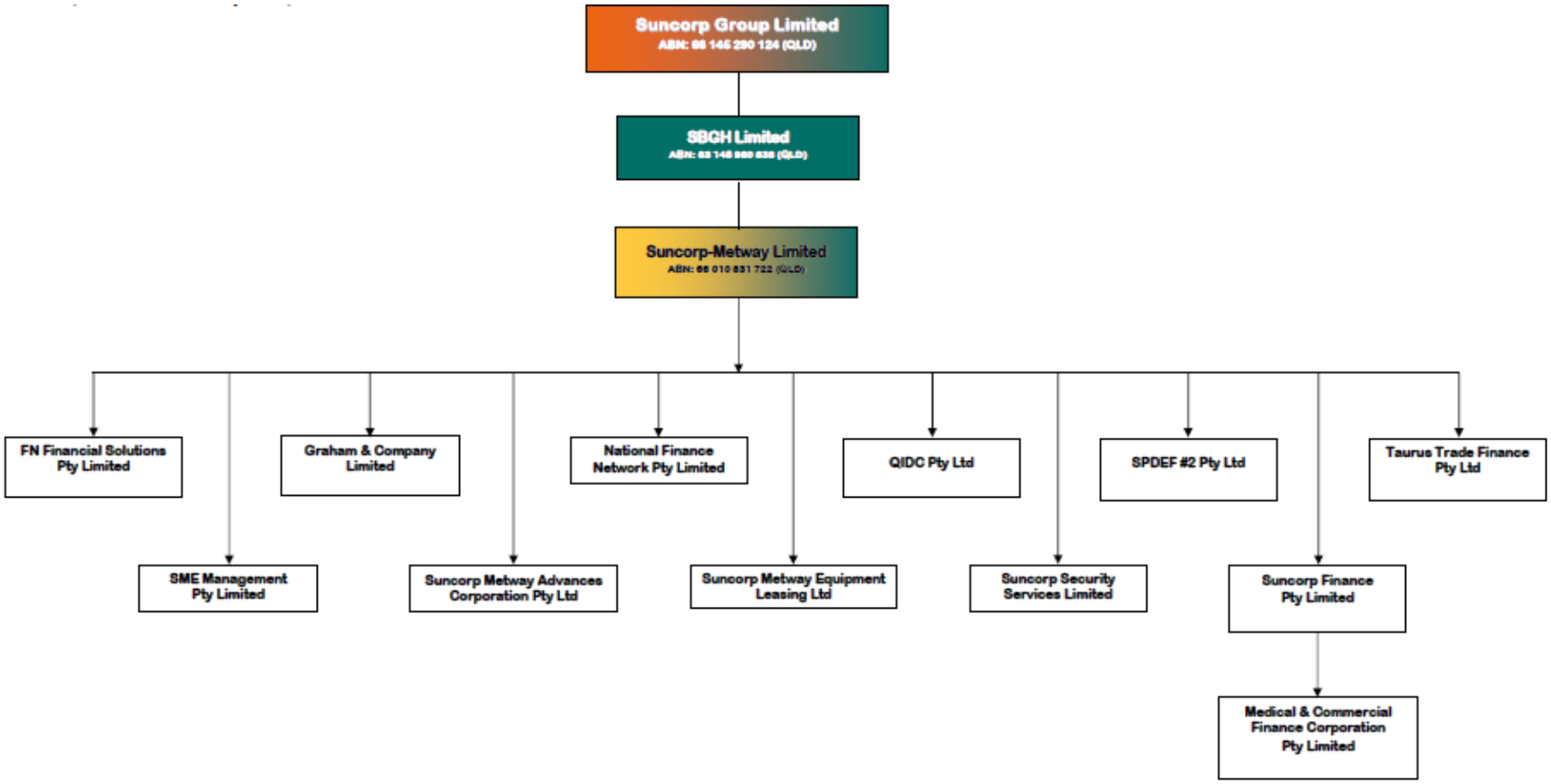


Following the NOHC Restructure, the Bank became a wholly owned subsidiary of Suncorp Group Limited. A simplified corporate structure of Suncorp Group Limited and its subsidiaries (including the Bank) (the "Post-NOHC Group") following the implementation of the NOHC Restructure and the corporate structure of the Bank are as follows:

Corporate Structure of the Post-NOHC Group



Corporate Structure of the Bank



The general insurance and life insurance subsidiaries that were transferred to Suncorp Group Limited as part of the NOHC Restructure are disclosed as discontinued operations within the Bank's consolidated results and details of the disposal are included in Note 5 to the Bank's annual financial statements for the years ended June 30, 2012 and June 30, 2011. Except as otherwise disclosed herein, the financial information presented in this Report has been restated and re-presented to illustrate the results of operations of these subsidiaries as discontinued operations.

Although the Bank's ordinary shares are no longer listed on ASX, it has floating rate capital notes listed on ASX and, accordingly, the Bank currently remains subject to the disclosure and other requirements of ASX as they apply to companies with ASX listed debt securities.

History of the Group

The Group's history dates back more than 100 years and involves a number of state and publicly owned banking, insurance and wealth management companies. In 1902, the Queensland Government established the Queensland Agricultural Bank, which later became part of the Queensland Industry Development Corporation ("QIDC"). The State Accident Insurance Office started business in 1916 and became later known as the State Government Insurance Office and then as Suncorp. Metway Bank was established as the Metropolitan Permanent Building Society in 1959 and became later known as Metway Bank.

Suncorp and QIDC were owned by the Queensland Government. On December 1, 1996, they were merged into the publicly listed Metway Bank Limited, creating a new integrated financial services provider headed by Metway Bank Limited (which was renamed Suncorp-Metway Limited).

On July 1, 2001, Suncorp-Metway Limited acquired AMP Limited's Australian general insurance interests, which increased its consolidated annual premium income to A$2 billion. The number of general insurance customers doubled and the business mix became more diversified, with growth in personal and commercial lines and the addition of workers compensation lines.

On March 20, 2007, Suncorp-Metway Limited merged with Promgroup Limited (the "Promina Merger"), formerly known as Promina Group Limited ("Promina Group"). This brought the number of customers to over seven million and increased total assets to A$84.9 billion across Australia and New Zealand at the time of the merger. The Promina Group's operations trace back to 1833 in Australia and 1878 in New Zealand. Shares in Promina were delisted as a consequence of the Promina Merger.

Relationship between the Group and the Bank

As a result of the NOHC Restructure, the Bank became a wholly owned subsidiary of Suncorp Group Limited. Accordingly, the Bank is subject to the Group's Corporate Governance Framework. Under that Corporate Governance Framework, the boards of Suncorp Group Limited and each of the operational business units of the Group, including the Bank, have the same directors. Each board is comprised of a majority of independent directors. There are currently four permanent sub-committees of each board of directors: the Audit Committee, the Risk Committee, the Remuneration Committee and the Nomination Committee. Each of the board sub-committees of Suncorp Group Limited and each operational business units of the Group, including the Bank, are also comprised of the same directors. Additional information regarding the Bank's corporate governance policies and risk management policies and framework are included in the Supplemental Information on the Directors, Management, Executive Remuneration, Corporate Governance and Risk Management Policies of Suncorp-Metway Limited and its Subsidiaries posted on the Bank's U.S. Investors' Website.

In addition to its ability to access a broad range of wholesale funding, the Bank benefits from capital investments made from time to time by the Group. These investments have been made for a

variety of purposes, including the redemption of the Bank's outstanding preference shares, ensuring the Bank satisfies its capital ratios and for general corporate purposes. During the Fiscal Year ended June 30, 2013, the Group purchased A$263 million of ordinary shares of the Bank and acquired two series of subordinated notes issued by the Bank (A$450 million in December 2012 and A$670 million in June 2013).

The Bank has provided a number of intercompany loans to other members of the Group for their working capital and general corporate purposes totaling A$361 million as at December 31, 2013, which predominantly comprise of short-term and long-term revolving facilities to related corporate services entities of the Bank, which provide corporate and business shared services across the Group. In addition, the Bank has provided an approved but as yet undrawn A$100 million facility to a related New Zealand insurance affiliate of the Bank. Intercompany loans are not guaranteed by Suncorp Group Limited.

A number of banking transactions occur between the Bank and other members of the Group. These transactions occur in the ordinary course of business and are typically on terms equivalent to those made on an arm's length basis. These include loans, deposits and foreign currency transactions, upon which some fees and commissions may be earned by the Bank. Other transactions between the Bank and other members of the Group comprise of advances made to, and received from, other members of the Group, dividends received from, and paid to, other members of the Group, as wells as interests received from, and paid to, other members of the Group. All these transactions are generally made on commercial terms, except that some advances may be interest free.

Business Strategy

The Group is focused on building its 'One Company. Many Brands' model across Australia and New Zealand and demonstrating that operating as a fully integrated entity delivers more benefits through scale to stakeholders than operating as independent businesses. As a wholly owned subsidiary of the Group, the Bank benefits from the Group's scale and seeks to leverage the customer relationships across the Group to grow its business in Australia.

The Bank principally operates as a regional bank and seeks to grow its business in its principal market of Queensland, as well as in Western Australia, New South Wales and Victoria, through delivering the product range, access options and capability of a major bank with the customer service focus of a smaller regional bank. The Bank intends to continue to grow its business in Queensland and interstate in retail banking and in business banking, specifically in its core target customer groups of agribusinesses and SMEs. The Bank seeks to achieve its goals with the following key strategies:

Geographic diversification. The Bank intends to continue to strategically expand its branch network and customer base outside of Queensland, particularly in New South Wales and Western Australia, where it has increased its presence since 2010. As part of this strategy, the Bank has strengthened its relationships with mortgage brokers in New South Wales and Western Australia, grown its network of branches outside of Queensland and continues to leverage its longstanding agribusiness experience in Queensland to further develop the business outside of Queensland.

Implementation of the Banking Platform Project. The Bank is continuing the implementation of its Banking Platform Project, a modernization and simplification of the Bank's operational systems that the Bank expects will bring significant business benefits. The Bank expects that these technology improvements will create a point of difference to its competitors and enable the Bank to further develop more innovative digital capabilities in a competitive market.

Enhancing risk and capital management. The Bank is further enhancing its risk and capital management capabilities, and in particular, working toward attaining Basel II advanced accreditation from APRA for its risk management systems. The Bank expects these changes will enable it to

compete more effectively with the major banks and broaden its product range, in particularly in the lower LVR lending market. The Bank's efforts to achieve Basel II advanced accreditation are also expected to assist in the improvement of the quality of its loan portfolio. The process of achieving Basel II advanced accreditation involves the assessment and modelling of risk across the Bank, including its credit risk, market risk, interest rate risk in its banking book, and operational risk. The aim of the process is to fundamentally change the way the Bank measures, monitors and manages risk, as well as improving its ability to calculate risk/return dynamics, to price risk more effectively and to manage capital more efficiently, thereby enabling the Bank to compete more effectively in its chosen markets. The program also seeks to embed a culture of robust understanding of the Bank's risks in its personnel so that appropriate data is captured and prudent risk decisions are made.

Ongoing quality improvements in the Bank's loan portfolio. In June 2013, the Bank sold a substantial portion of the Non-Core Portfolio with a book value of A$1.6 billion, and ceased disclosing its non-core business separately from its core business commencing with the Half Year ended December 31, 2013. The Bank now holds a residual portfolio of A$298 million of non-core assets, which is managed as part of the overall Bank's lending portfolio. See "— Recent Developments — Reduction of Non-Core Portfolio" for further information. The Bank is focused on further improving the quality of its loan portfolio through reducing concentrations of loans in particular businesses, such as high LVR residential mortgage lending, and improving lending standards and credit assessment procedures.

The Bank is currently working towards Basel II advanced accreditation. Advanced accreditation is expected to support ongoing improvement in the quality of the Bank's statement of financial position through delivering an enhanced understanding and management of risk and capital. There are nine pre-requisite capabilities, underpinned by robust data and risk models, that the Bank must develop and exhibit prior to APRA granting Basel II advanced accreditation status. "See "Suncorp-Metway Limited – Business Strategy" for further detail.

Upon achievement of Basel II advanced accreditation status, expected benefits include the ability to price risk more effectively and manage capital more efficiently, enabling the Bank to better compete in its chosen markets.

Growing deposits. The Bank seeks to support lending growth by maintaining a 60 to 70% deposits-to-loans ratio. The Bank intends to achieve the targeted deposit to lending range by continuing to deliver a strong service proposition to its Queensland customer base, while diversifying its retail distribution footprint and capability outside of Queensland, primarily in New South Wales and Western Australia. This approach has delivered strong deposit growth to date, with overall deposit balances increasing by 7% between December 31, 2012 and December 31, 2013. The Bank expects that these strategies will enable it to continue to match the funding of its lending activities predominantly with retail deposits and long-term wholesale funding.

Simplification. The Bank plans to further simplify its operations through a branch and distribution optimization program that aims to balance investment between digital and physical distribution channels to meet customers changing needs and transaction habits. The Bank has enabled its staff to employ flexible working strategies in order to increase employee satisfaction and engagement, while reducing the Bank's overall requirement for prime office space. The Bank has undertaken a commercial and agribusiness banking transformation program that has sought to standardize processes around best practice and to move processing work and back office operations to partner organizations.

Business Strengths

The Bank believes that its key competitive strengths include:

Big enough, but small enough. The Bank believes its competitive advantage is that it delivers the product range, access options and capability of a major bank with the customer service focus of a smaller regional bank. The Bank has a comparable retail banking product offering to the major Australian banks in the areas where it competes, including personal, agribusiness, small business and commercial banking, and has received a number of awards for such product offerings, as well as for its customer service.

Efficiency and scale. The Bank uses the Group's infrastructure and services to more effectively manage its costs. Suncorp Business Services, a member of the Group, provides integrated shared services across the Group. These shared services include information technology, human resources, business services, company secretarial and investor relations, media relations and corporate communications, taxation, group risk management and other Group-wide services and business shared services. In addition, the increased level of investment in technology by the Group provides access to technology and resources that would be difficult to be sustained purely at the Bank level. For example, the ongoing rollout of the Banking Platform Project is continuing to improve the Bank's online platform, enhance efficiencies in reporting functions and improve data analysis and provide scale advantages when dealing with suppliers. See "Suncorp-Metway Limited — Relationship between the Group and the Bank" for further information.

Improved stability of funding sources. Since the global financial crisis, the Bank has improved the stability of its funding profile by increasing the proportion of retail deposits to lending assets as a funding source from 53% as at June 30, 2010 to 66% as at December 31, 2013. The Bank has also established domestic and offshore funding programs for short and long term wholesale debt. Short-term funding sources includes Australia-based sources as well as the commercial paper markets in the United States and Europe. Long-term wholesale funding options include senior unsecured debt, covered bonds and residential-mortgage backed securities in domestic and international markets. See "Management's Discussion and Analysis of Results of Operation and Financial Condition — Liquidity and Capital Resources" for further information.

Strong brand and customer relationships. The Bank believes that it benefits from the Group's portfolio of leading brands in the financial services industry and seeks to leverage the customer relationships of the Group to assist in growing its business in Australia. The Bank also believes that it benefits from the Group's strategy to encourage a customer of any member of the Group to hold multiple Group products, including the Bank's products such as deposits, transaction accounts and loans, in order to deepen relationships and strengthen loyalty to its brand and to cross-sell the Group's products and services.

Community driven culture. The Bank currently has over one million customers, capturing Australians' sense of belonging and community connection via its "Genuine Regional Bank" positioning. The Bank builds deep and extensive connections with its customers through a common platform of systems, processes, tools and behaviors that enable its people to have consistent interactions and conversations with customers. The Bank's employees have accountability for local leadership so they can be genuine contributors to local communities and understand businesses at a local level. The Bank's retail and business customer satisfaction regularly ranks ahead of the major banks in Australia. For the calendar year ended December 31, 2013, personal customer satisfaction was 84.7% compared with between 77.7% and 81.8% for the major Australian banks (Source: Roy Morgan 2013) and business customer satisfaction was 81.2% versus 67.7% to 77.3% for the major Australian banks (Source: DBM, 2013).

Experienced Board and management team. The Group's Board, which governs the Bank, is led by its Chairman, Zygmunt Switkowski, who has been a director of the Group since December 2010 and a Director of the Bank since September 2005. Members of the Board have significant experience across financial services businesses including senior roles in banking, property development, technology, asset management and the insurance sector. Patrick Snowball, the Managing Director and Group Chief Executive Officer of the Group, has over 20 years of experience

in senior executive roles at life and non-life insurance companies. Prior to joining the Group, he was a member of the executive teams at both Norwich Union plc and Aviva plc, the world's fifth largest insurance group and the largest insurance provider in the United Kingdom. Steve Johnston, the Group Chief Financial Officer, has over 20 years of experience in senior corporate and government positions and has held a number of senior executive positions with the Group since 2006. The Bank's management team has extensive experience in financial services. John Nesbitt, the Chief Executive Officer of Suncorp Bank, has over 20 years of experience in senior finance and business positions and was formerly the Group Chief Financial Officer and Greg Bryant, the Chief Financial Officer of Suncorp Bank, has over 20 years of experience in senior finance executive positions and has held a number of senior executive positions with the Bank since 2004.

Recent Developments

Executive Team

John Nesbitt succeeded David Foster as the Chief Executive Officer of Suncorp Bank on December 9, 2013. John Nesbitt joined the Group in May 2010 as Group Chief Financial Officer. Prior to joining the Group, John held senior finance and business positions in major Australian corporations. He has also worked for PriceWaterhouseCoopers in both Australia and the United Kingdom. See the section entitled "Directors" in the Supplemental Information on the Directors, Management, Executive Remuneration, Corporate Governance and Risk Management Policies of Suncorp-Metway Limited and its Subsidiaries posted on the Bank's U.S. Investors' Website.

Reduction of the Non-Core Portfolio

Following the global financial crisis, the Group undertook a strategic review of its operations and determined to focus on the Bank's core operations in the relatively lower risk lending businesses of retail, agribusiness and commercial/SME and to run off its Non-Core Portfolio. The Non-Core Portfolio consisted of A$18 billion in corporate, development finance and property investment loans. In 2009, the Bank commenced a program to run down the Non-Core Portfolio in an orderly fashion through organic run off and loan sales.

The Non-Core Portfolio included exposures to the following businesses:

- *Property Investment.* Providing finance to non-development property investors for assets such as shopping centers, commercial offices and industrial warehouses (excluding construction projects which are classified as Development Finance);

- *Development Finance.* Providing finance property developers for a wide range of real estate developments;

- *Corporate Lending*. Managing relationships with the Bank's largest (non-property) business, and corporate customers, including provision of working capital and term finance for clients with a total borrowing requirement of more than A$25 million; and

- *Lease Finance*. A suite of leasing and rental products were offered to customers to meet their vehicle and equipment financing requirements.

As at May 31, 2013, the Non-Core Portfolio had an outstanding balance of A$2.8 billion in assets. On June 13, 2013, the Bank announced the sale of a A$1.6 billion portfolio of corporate and property assets at a weighted realization of 60 cents in the dollar. The sale was settled on July 31, 2013. In connection with the sale, the Bank recognized a loss on the sale of loans and advances of A$527 million for the Fiscal Year ended June 30, 2013.

As at December 31, 2013, the residual portfolio had A$298 million of assets from approximately 100 loans with an average loan balance of less than A$3 million. These residual loans are now managed as part of the overall Bank's lending portfolio, with a majority of these loans expected to be run down over the remainder of the Fiscal Year ended June 30, 2014.

Businesses

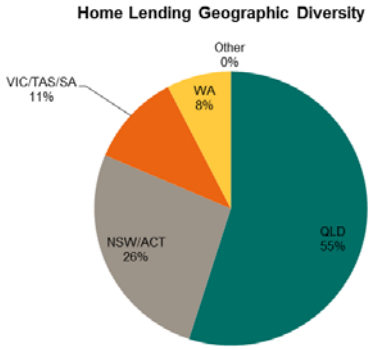
The Bank's business operates predominantly in Queensland. The Bank provides retail banking services and business banking services.

Retail Banking

The Bank's retail banking business provides home and personal loans, transactional, savings and investment accounts, credit cards and foreign currency services for over one million customers in Australia through 215 retail outlets located primarily in Queensland, as well as in New South Wales, Western Australia and Victoria, and through call centers, internet banking and ATMs. As at December 31, 2013, the Bank's total retail loans were A$38.7 billion and total retail deposits were A$32.3 billion. Total housing loans represented 78% of the Bank's total lending portfolio as at December 31, 2013.

The Bank's retail banking business primarily offers the following products:

- *Housing Loans*. The Bank provides a range of housing loans, including owner-occupied and investment loans. As at December 31, 2013, the Bank had a total of A$38.3 billion in outstanding total housing loans. The Bank's housing loan portfolio is predominantly concentrated in Queensland and New South Wales, which together represented 81% of the Bank's total housing loans. The Bank is targeting expansion in markets outside of Queensland, and has captured some market share in New South Wales and Western Australia. The Bank's portfolio outside of Queensland has increased more than 35% over the past two fiscal years, from A$11.8 billion as at June 30, 2011 to A$16.3 billion as at June 30, 2013 and accounted for 45% of the Bank's total retail lending at December 31, 2013. The housing loan market of Western Australia is the Bank's fastest growing market with growth of 6.5% over the twelve months ended December 31, 2013. The chart below illustrates the distribution of housing loans by state as a percentage of the total housing loans outstanding as at December 31, 2013:



- *Consumer Loans*. The Bank provides a range of consumer loan products, including personal loans, overdrafts, credit cards and margin lending. As at December 31, 2013, the Bank had a total of A$452 million in consumer loans outstanding.

The Bank continues to invest in the optimization of its branch network. Retail customers continue to typically rely on bank branches to originate loans and open customer accounts, despite the rise in the use of digital distribution channels for research and transactions, with the Bank (and other full service banks) continuing to use branches as a key place to acquire new customers and maintain brand awareness. The Bank has introduced new branch locations and branch designs in response to customer needs and preferences, as part of the optimization program. In addition, the Bank has sought to broaden its deposit base in other Australian states, particularly in New South Wales and Western Australia, through increasing the number of branches in each of these states with potentially smaller branch designs than those established by the Bank's competitors. This strategy is intended to increase consumer awareness of the Bank's brand through its physical presence, which, when coupled with competitive pricing on term deposits and its focus on customer service, is expected to lead to increased deposits, while also keeping the costs of maintaining the branches low.

The Bank's strategy to date has delivered strong deposit growth, with overall deposits increasing 7% from A$30.1 billion as at December 31, 2012 to A$32.3 billion as at December 31, 2013. The Bank expects that its current strategy will enable it to continue to match the funding of its lending activities predominantly with retail deposits and long-term wholesale funding. In order to better satisfy customer needs, the Bank is also trialing new branch formats, including kiosks and new flagship designs. These new formats incorporate greater use of self-service technologies, such as smart ATMs, interactive displays and internet banking terminals. Outside of the branch network, the Bank continues to invest in its digital infrastructure, including a new mobile application, or "app", and functionality to verify new customer details electronically. The new mobile app is intended to offer enhanced mobile functionality and an improved experience for the Bank's deposit account customers.

Business Banking

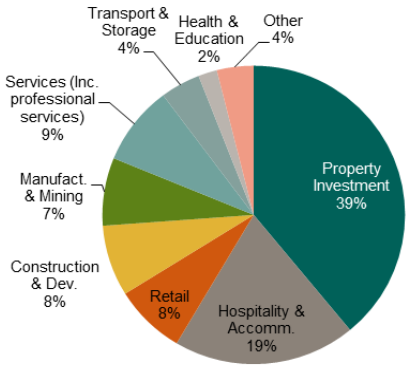
Business banking has a focus on customers in the agribusiness and SME market segments. The Bank's business banking portfolio is predominantly concentrated in Queensland, which represented 67% of the Bank's business banking portfolio as at December 31, 2013. The Bank is focused on expanding its lending outside of Queensland, particularly in New South Wales and Western Australia. The Bank's commercial/SME loans outside of Queensland increased 16% from A$1.6 billion as at December 31, 2012 to A$1.8 billion as at December 31, 2013, with New South Wales and Western Australia growing 25% and 19%, respectively, during that period. The Bank's business loans were A$10.4 billion as at December 31, 2013. Business Banking offers products through the following core banking businesses:

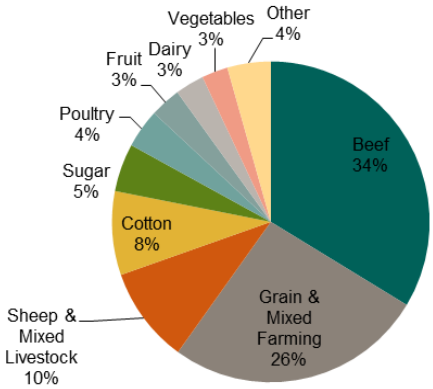
- *Agribusiness banking*. Providing financial solutions and serviced relationship management for rural producers and associated businesses in rural and regional areas.

- *Commercial/SME banking*. Providing financial solutions and products for small businesses and SMEs.

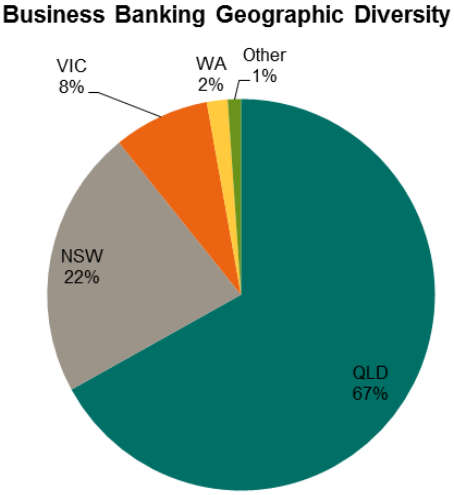
The charts below illustrate the distribution of business banking loans in the commercial/SME and agribusiness portfolios, by type of loan as a percentage of the total loans outstanding as at December 31, 2013:

Commercial/SME Portfolio Diversity **Agribusiness Portfolio Diversity**





In line with the Bank's long heritage in agribusiness in Queensland, the Bank's business banking loan portfolio is substantially concentrated in Queensland and, to a lesser extent, in New South Wales. The chart below illustrates the distribution of business banking loans geographically by state as at December 31, 2013:



Outsourcing Arrangements

Consistent with the strategy adopted by a number of Australian and international financial institutions, the Bank uses suppliers and third-party providers to fulfill certain processes such as data entry and management, loan processing and paper-based clearing and settlement. Such outsourcing arrangements are intended to reduce the costs of back office operations and to focus the Bank's efforts on modernizing its operational systems on those areas which have a direct impact on revenue generation, efficiency, customer service and satisfaction.

Competition

The Australian financial services industry consists of banks, life insurance companies and non-bank financial institutions, which provide a range of financial services including customer deposits, the provision of lending, funds management and life insurance. Four major banking groups dominate the Australian banking environment, namely, Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, National Australia Bank Limited and Westpac Banking Corporation. Collectively, these banking groups held over 81% of the total gross loans and advances

in Australia as at December 31, 2013 (Source: APRA, Monthly Business Statistics, February 28, 2014) and 84% of market share for retail lending as at December 31, 2013 (Source: APRA, Monthly Business Statistics, February 28, 2014). The Bank's direct competitors also include regional Australian banks. In particular, two key regional banks – Bendigo and Adelaide Bank Limited and Bank of Queensland – as well as smaller regional banks owned by one of the four major banking groups. Examples of regional banks owned by the four banking groups include St George Bank and the Bank of Melbourne, both of which are wholly owned by the Westpac Banking Corporation, and Bankwest, which is wholly owned by the Commonwealth Bank of Australia. Mutual banks and credit unions, as well as other financial institutions, such as Macquarie Bank Limited, and AMP Limited, and foreign banks such as ING Bank (Australia) Limited make up the remainder of the industry.

The Bank competes in selected banking markets, namely, mortgages, agribusiness lending and commercial lending (predominantly to SMEs). The Bank has a strong market position in Queensland due to its long heritage in the state, with 8.7% market share for retail banking in Queensland as at December 31, 2013 (Source: Roy Morgan, January 30, 2014). The Bank is significantly smaller than the four major Australian banking groups and has a national market share of approximately 2.4% of gross loans and advances and 2.3% of deposits as at December 31, 2013 (Source: APRA, Monthly Business Statistics, February 28, 2014). In contrast, the largest of the four major banking groups, Commonwealth Bank of Australia, has 24.7% market share of gross loans and advances and 24.4% of deposits (Source: APRA, Monthly Business Statistics, February 28, 2014).

Each of the four major banking groups offer a full range of financial products and services through branch networks, electronic channels and third party intermediaries across Australia. The regional banks, while smaller than the major banking groups, operate across state borders or nationally, primarily in mortgage lending, supported by non-bank mortgage originators and brokers. There are other non-bank and mutual bank financial intermediaries, such as building societies and credit unions. As their funding markets have stabilized over the course of the calendar year ended December 31, 2013, regional banks and non-bank financial intermediaries have regained some competitiveness in the mortgage lending business against the major banking groups who had dominated the market in the aftermath of the global financial crisis of 2008. Prudential regulation, particularly capital requirements with respect to mortgage lending, has also adversely impacted the ability of regional banks and non-bank financial intermediaries to compete with the major Australian banking groups across the full LVR spectrum of mortgage lending. See "Risk Factors — The Bank faces intense competition in all aspects of its business" for further information.

The Bank actively competes for retail deposit funding, which typically represents a more stable source of funds than wholesale funding and, in the case of transaction accounts, is less expensive. The Bank seeks to maintain a deposits-to-loans ratio of between 60 and 70%. As at December 31, 2013, the Bank's deposits-to-loans ratio was 66%. The Bank's deposit offering is underpinned by a full range of savings and transactional deposit accounts, an attractive customer service proposition and competitive pricing points. The Bank attracts deposits through its loyal customer base in Queensland and through the expansion of its network in other Australian states. The Bank has broadened its deposit base in other Australian states, particularly in New South Wales and Western Australia, by increasing the number of branches in each of these states. In order to better satisfy customer needs, the Bank is also trialing new branch formats, including kiosks and new flagship designs. These new formats incorporate greater use of self-service technologies, such as smart ATMs, interactive displays, internet banking terminals. Outside of the branch network, the Bank continues to invest in its digital infrastructure, including a new mobile application or "app" and functionality to verify new customer details electronically. The new mobile app offers enhanced mobile functionality and an improved experience for the Bank's deposit account customers.

Changes in the financial needs of consumers, deregulation and technological developments have also changed the competitive environment. In particular, the development of electronic delivery channels and the reduced reliance on a physical network facilitate the entry of new players from related industries, such as retailers, telecommunication companies, insurers, supermarkets and utility

companies. These potential competitors are characterized by strong consumer brands, advanced technology and large customer bases. Technological change is also encouraging new entrants with differing combinations of expertise.

Property

The Bank operates approximately 215 offices, branches and agencies primarily in Queensland, New South Wales, Western Australia and Victoria. The Bank's premises are subject to regular maintenance and upgrading and are considered suitable and adequate for its current and foreseeable future requirements.

The Bank is continuing its retail expansion outside of Queensland with the opening of 21 new branches and business banking centers since June 2010.

Employees

The Bank presents its employee numbers in terms of the Group's employee numbers, which it views as having greater relevance given its reliance on shared services from other members of the Group and given the practice of the Group to share facilities (such as branches) and, where appropriate and necessary, to deploy personnel from one part of the Group's business (including the Bank) to another. As at December 31, 2013, approximately 19.5% of the Group's employees were employed specifically in connection with the Bank's businesses.

The Group's employees (including those of the Bank) are located throughout Australia and New Zealand, predominantly in Queensland, New South Wales, Western Australia and Victoria. The table below illustrates the breakdown of the Group's employees as at December 31, 2013 and June 30, 2013, 2012 and 2011.

Number of full time equivalent roles as at:			
December 31,	**June 30,**		
2013	**2013**	**2012**	**2011**
13,977	14,239	14,891	15,238

Note: Full time equivalent ("FTE") roles includes all permanent, casual, fixed term contractors and non-payroll contractors minus the total FTE of employees on extended leave.

The Bank's employees are, with the exception of senior executives, covered by the terms and conditions of employment set forth in the Group's enterprise agreement, which was first implemented in February 2011 (the "Enterprise Agreement"). The Enterprise Agreement is valid until February 2015 and covers such issues as leave and overtime entitlements, flexible working arrangements, remuneration and termination of employment.

Legal Matters

The Bank is party to certain claims and litigation in the ordinary course of business. The Bank is not currently involved in any legal proceedings that it believes will result, individually or in the aggregate, in a material adverse effect on the Bank's financial condition or results of operations.

In July 2010, the Australian law firm, Maurice Blackburn, announced that it intended to sue 12 Australian banks, including the Bank, with respect to the charging of exception fees. Between September 2010 and April 2012, proceedings were commenced against a total of eight Australian banks, seven of which were stayed pending the decision against the test defendant, Australian and New Zealand Banking Group Limited. No action, however, was commenced against the Bank. On February 5, 2014, the Federal Court of Australia ruled that credit card late payment fees were penalties, but otherwise held that overdraw honour fees, dishonour fees, non-payment fees and

overlimit fees were not penalties. To date, the Bank has not been the subject of legal proceedings with respect to exception fees. Accordingly, the financial impact of any future class action against the Bank cannot be reliably measured at this stage. However, based on the information currently available to the Bank, it is not anticipated to have a material impact on the Bank.

Additional Information

Additional information regarding the Bank's directors, management, executive remuneration, corporate governance policies and risk management policies and framework are included in the Supplemental Information on the Directors, Management, Executive Remuneration, Corporate Governance and Risk Management Policies of Suncorp-Metway Limited and its Subsidiaries posted on the Bank's U.S. Investors' Website.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION AND FINANCIAL CONDITION

You should read the following discussion of the Bank's financial condition and results of operations together with the Bank's financial statements and the notes to such financial statements, incorporated by reference in this Report. The presentation in this section contains forward-looking statements that involve risks, uncertainties and assumptions. See "Special Note Regarding Forward-Looking Statements". The Bank's actual results may differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including, but not limited to, those set forth under the caption "Risk Factors" and elsewhere in this Report.

Overview

The Bank was founded in 1902 as the Queensland Agricultural Bank and has provided banking services to individuals, SMEs and agribusinesses in regional communities of Australia for more than 110 years. The Bank is an ADI regulated by APRA and is headquartered in Brisbane, Australia. It is a wholly-owned subsidiary of Suncorp Group Limited, a diversified financial institution and among the top 20 largest companies listed on the ASX with a market capitalization of A$16.0 billion (US$14.3 billion) as at March 7, 2014.

The Bank is one of Australia's largest regional banks with A$49.6 billion of gross loans, advances and receivables as at December 31, 2013. It services more than one million individual, agribusiness, small-to-medium businesses and commercial banking customers, primarily in Queensland. The Bank provides a range of financial services and simple banking products, which include:

- Personal banking, including home and personal loans, savings and transaction accounts, margin lending, credit cards and foreign currency services;
- Commercial/SME banking, including small business banking and financial solutions for SMEs; and
- Agribusiness banking, including financial solutions and serviced relationship management for rural producers and associated businesses in rural and regional areas.

Following the global financial crisis, the Group undertook a strategic review of its operations and determined to focus on the Bank's core operations in the relatively lower risk lending businesses of retail, agribusiness and commercial/SME and to run off its Non-Core Portfolio. The Non-Core Portfolio consisted of A$18 billion in corporate, development finance and property investment loans. In 2009, the Bank commenced a program to run down the Non-Core Portfolio in an orderly fashion through organic run off and loan sales. In June 2013, the Bank sold a substantial portion of the Non-Core Portfolio with a book value of A$1.6 billion, and ceased disclosing its non-core business separately from its core business commencing with the Half Year ended December 31, 2013. As at December 31, 2013, a residual portfolio of A$298 million of non-core assets remained, which is now managed as part of the overall Bank's lending portfolio. See "Suncorp-Metway Limited — Recent Developments — Reduction of Non-Core Portfolio" below for further information.

Basis of Presentation

On December 15, 2010, the Bank's shareholders approved the NOHC Restructure pursuant to which the shareholders of Suncorp-Metway Limited agreed to transfer their ordinary shares in the Suncorp-Metway Limited to a new non-operating holding company known as Suncorp Group Limited in exchange for ordinary shares in Suncorp Group Limited, which occurred in conjunction with a series of internal restructuring transactions described in "Suncorp-Metway Limited — Reorganization". As a result of the NOHC Restructure, the Bank became a wholly-owned subsidiary

of Suncorp Group Limited on January 7, 2011 and transferred its shares in its general insurance and life insurance subsidiaries to Suncorp Group Limited. The results of operations of the general insurance and life insurance businesses that were transferred to Suncorp Group Limited are reflected as discontinued operations in the Bank's statement of comprehensive income for the Fiscal Year ended June 30, 2011. See Note 5 to the Bank's financial statements for each of the Fiscal Years ended June 30, 2012 and 2011 for more information about the Bank's discontinued operations.

The Bank has presented its consolidated statements of financial position as at December 31, 2013 and 2012 and as at June 30, 2013, 2012 and 2011 and its consolidated statements of comprehensive income and statements of cash flow for the Half Years ended December 31, 2013 and 2012 and for the Fiscal Years ended June 30, 2013, 2012 and 2011 as they are presented in the Bank's 2014 interim financial statements, 2013 annual financial statements, 2012 annual financial statements and 2011 annual financial statements, as applicable. All other tables (except those relating to the Bank's regulatory capital which are presented in accordance with the Bank's APS 330 reports) are presented on the same basis as the Bank's 2014 interim financial statements, 2013 annual financial statements, 2012 annual financial statements and 2011 annual financial statements, as applicable, except that, consistent with the Bank's other public disclosures, they do not include the Bank's exposures to, or transactions with, related parties within the Group and they make an allocation between the Core Bank and Non-Core Bank. For more information, see note 10 to the Bank's 2014 interim financial statements, note 15 to the Bank's 2013 annual financial statements, note 14 to the Bank's 2012 annual financial statements and 2011 annual financial statements and "Suncorp-Metway Limited — Relationship between the Group and the Bank".

As a result of the program to run off or sell the Bank's Non-Core Portfolio, the Bank's financial statements for the Fiscal Years ended June 30, 2011, 2012 and 2013 includes the Non-Core Bank, which reflects the activities and operations of the Non-Core Portfolio during the relevant periods. Following the sale of a substantial portion of the Non-Core Portfolio in June 2013, results for the Non-Core Bank were not reported for the Half Year ended December 31, 2013.

Principal Factors impacting on the Bank's Results

The Bank is largely impacted by economic conditions in the Australian economy, as described in "Risk Factors — The Bank's business is substantially dependent on the Australian economy, including general economic conditions and other business conditions." In particular, the Bank is sensitive to movements in interest rates. In a declining interest rate environment, the Bank will experience margin compression from an inability to reprice low cost deposits and transaction accounts. Similarly, yields on the Bank's invested capital will also be impacted. The level of interest rates also has a direct relationship with the growth of the Australian housing market, consumer demand for deposits and loans and the performance of non-performing loans and impaired assets.

The Bank's ability to fund its lending, through both retail and wholesale deposits, is key to the success of the Bank's lending business and its financial results. The Bank relies on credit and capital markets, both domestic and offshore, to fund its lending, and its ability to access these markets affected by general financial and economic conditions, as described in "Risk Factors — Adverse credit and capital market conditions." To mitigate the risk of non-performing wholesale markets, the Bank has committed to maintaining a 60 to 70% retail deposits-to-loans ratio, sourcing deposits from its customers through transaction accounts and term deposits to keep pace with the desired growth in the lending book.

In addition, the Bank's financial results are impacted by the composition of its loan portfolio, in particular, its non-performing loans and impaired assets. The Bank's strategy is to target its residential mortgage lending to owner occupiers, particularly those with loans below A$500,000, and to concentrate on low LVR lending such that it is more in line with other industry participants.

The Bank has a moderate appetite for exposure and growth in the commercial/SME and agribusiness sectors within its key strategic businesses and within its internal concentration limits.

The cyclical nature of the Australian agribusiness industry, namely its susceptibility to adverse weather conditions such as floods, bushfires and other natural disasters, is expected to continue to affect the performance of the Bank's agribusiness mortgage book and its future financial results. The Bank manages exposures by employing agribusiness specialists with an understanding of the industry, in particular, the risks associated with their region, allowing them to assess a customer's capabilities and needs.

Key Drivers of Business and Trends

The key drivers for the Bank's financial results for the Fiscal Years ended June 30, 2013, 2012 and 2011 and the Half Year ended December 31, 2013 were as follows:

- Lending growth was achieved during the Fiscal Years ended June 30, 2011, 2012 and 2013 and the Half Year ended December 31, 2013. This was primarily due to:

  - growth in residential mortgage lending as the Bank continued its strategy of targeting low risk first home buyers and other borrowers within the "Middle Australia" customer segment, namely aspirational 25-55 year-old consumers who are considering the acquisition of a financial product or service.

  - continued focus on further increasing its brand presence in the Queensland market and expanding outside of Queensland, particularly in New South Wales and Western Australia.

  - growth in commercial/SME loan portfolio, primarily due to the Bank's continued focus on increasing its brand presence in the Queensland market while expanding its portfolio outside of Queensland, primarily in New South Wales and Western Australia, and on generating business in new sectors, such as health, self-managed super fund and franchise lending.

  - growth in the agribusiness loan portfolio, largely due to the Bank's long heritage and strength of brand in the agribusiness sector continuing to underpin growth across the Bank's core Queensland and New South Wales markets.

- Deposit growth was achieved during the Fiscal Years ended June 30, 2011, 2012 and 2013 and the Half Year ended December 31, 2013, primarily as a result of growth in the retail deposit customer base as the Bank expanded outside of Queensland into New South Wales and Western Australia.

- Impairment losses on loans and advances for the Half Year ended December 31, 2013 decreased compared to the prior corresponding period, primarily due to a reduction in provisions associated with the run off of the Non-Core Portfolio. This contrasted with higher impairment losses for the Fiscal Year ended June 30, 2013 compared to the Fiscal Year ended June 30, 2012, which were impacted by a higher number of impaired loans to customers who were impacted by adverse weather conditions and natural disasters, primarily in Queensland and New South Wales. Impairment losses decreased for the Fiscal Year ended June 30, 2012 compared to the Fiscal Year ended June 30, 2011 due to a A$25 million write back of flood provisions.

- Operating expenses increased during the Fiscal Years ended June 30, 2011, 2012 and 2013 and the Half Year ended December 31, 2013 due to expenses associated with higher sales volumes, expansion of the Bank's footprint, and expenses associated

with the Banking Platform Project and the continuation of the Basel II advanced accreditation program. The cost-to-income ratio for the Half Year ended December 31, 2013 was 59.6% compared to 54.7%, 55.9% and 59.2% for the Fiscal Years ended June 30, 2011, 2012 and 2013, respectively.

- The net loss contribution from the Non-Core Bank increased during the Fiscal Years ended June 30, 2011, 2012 and 2013 and the Half Year ended December 31, 2013. The A$902 million net loss contribution from the Non-Core Bank for the Fiscal Year ended June 30, 2013 was primarily due to a A$484 million loss incurred as a result of the sale of the A$1.6 billion portfolio and an early buyback of Australian government-guaranteed debt. Net interest income continued to decline across all comparative periods as the amount of assets in the Non-Core Portfolio continued to decline due to the portfolio and individual asset sales during the periods.

Significant and Critical Accounting Policies

The preparation of the Bank's financial statements requires its management to exercise judgment and make estimates and assumptions that affect the application of its accounting policies and the amounts reported in the financial statements. A description of the Bank's significant accounting policies is contained in Note 3 to its 2014 interim financial statements, Note 3 of its 2013 annual financial statements and in "Financial Information Presentation". While the Bank regards all of its significant accounting policies as important to consider when evaluating its financial statements, the Bank has identified two accounting policies as particularly involving critical accounting estimates and requiring management's exercise of judgments, namely, those relating to specific and collective provisions for loan impairment, which is discussed in Note 11 of the Bank's 2014 interim financial statements and Note 16 to the Bank's 2013 annual financial statement, and the valuation of financial instruments and fair value hierarchy disclosures, which is discussed in Note 21 of the Bank's 2014 interim financial statements and Note 28 of the Bank's 2013 annual financial statements.

Results of Operations

The following table presents the Bank's consolidated results of operations from continuing operations for the periods presented:

	Half Year ended December 31,			Fiscal Year ended June 30,		
	2013	**2013**	**2012**	**2013**	**2012**	**2011**
(*in millions*)	*US$*[1]	*A$*	*A$*	*A$*	*A$*	*A$*
Net interest income	**439**	**492**	**484**	**986**	**928**	**910**
Other operating income	18	20	47	60	140	132
Total net operating income	**457**	**512**	**531**	**1,046**	**1,068**	**1,042**
Operating expenses	(272)	(305)	(303)	(628)	(603)	(577)
Impairments and loss on sale of loans and advances[2]	(52)	(58)	(215)	(902)	(432)	(325)
Profit before income tax	**133**	**149**	**13**	**(484)**	**33**	**140**
Income tax (expense) benefit	(39)	(44)	(9)	135	(11)	(60)
Profit for the period	**94**	**105**	**4**	**(349)**	**22**	**80**

(1) For purposes of this Report, currencies have been translated at the exchange rate at December 31, 2013 of US$0.8929 per A$1.00.

(2) The loss on sale of loans and advances during the Fiscal Year ended June 30, 2013 related to the disposal of A$1.6 billion of loans in the Non-Core Portfolio in June 2013 and other costs associated with smaller transactions throughout the period. The figure for the Fiscal Year ended June 30, 2012 has

been restated on the same basis to reflect an impairment expense of A$27 million for the Fiscal Year ended June 30, 2012. The resulting impact was a corresponding adjustment in other operating income from A$113 million to A$140 million for the Fiscal Year ended June 30, 2012. See “Summary — Recent Developments — Reduction of the Non-Core Portfolio” for more information about the Bank’s disposal of the Non-Core Portfolio.

Comparison of the Half Year ended December 31, 2013 to the Half Year ended December 31, 2012

Results for the Non-Core Portfolio were not reported for the Half Year ended December 31, 2013 due to the sale of a substantial portion of the Non-Core Portfolio during the Fiscal Year ended June 30, 2013. The financial information for the Half Year ended December 31, 2012 was restated to be presented on a comparable basis. See "— Basis of Presentation" above.

	Half Year ended December 31, 2013	Half Year ended December 31, 2012	Percentage Change
	(A$ millions)		*(%)*
Net interest income	**492**	**484**	1.7
Other operating income			
Net banking fee income	37	39	(5.1)
Mark-to-market on financial instruments	(19)	8	n/a
Other income	2	-	n/a
Other operating income	**20**	**47**	(57.4)
Total income	**512**	**531**	(3.6)
Operating expenses	**(305)**	**(303)**	0.7
Profit before impairment losses on loans and advances	**207**	**228**	(9.2)
Losses on loans and advances	(58)	(215)	(73.0)
Profit before tax	**149**	**13**	large

Overview. Net profit before tax increased significantly from A$13 million for the Half Year ended December 31, 2012 to A$149 million for the Half Year ended December 31, 2013. Despite subdued consumer confidence and intense competition, the Bank achieved 0.6% growth in total loans, advances and other receivables from A$48.8 billion as at December 31, 2012 to A$49.1 billion as at December 31, 2013.

Highlights for the Bank's net profit for the Half Year ended December 31, 2013 included:

- Housing loans increased 6.5% from A$36.0 billion for the Half Year ended December 31, 2012 to A$38.3 billion for the Half Year ended December 31, 2013, while business loans for the Half Year ended December 31, 2012 decreased 18.8% from A$12.8 billion for the Half Year ended December 31, 2012 to A$10.4 billion for the Half Year ended December 31, 2013, principally due to growth in volumes as the Bank continued its home lending strategy of targeting lower risk first home buyers and other borrowers within the "Middle Australia" customer segment, namely aspirational 25-55 year-old consumers who are considering the acquisition of a financial product or service, as well as its continued focus on increasing its brand presence in the Queensland market while expanding outside of Queensland, primarily in New South Wales and Western Australia.

- Retail deposits increased 7.2% from A$30.1 billion as at December 31, 2012 to A$32.3 billion as at December 31, 2013, principally due to growth in the retail deposit customer base as the Bank expanded outside of Queensland into New South Wales and Western Australia. The Bank's retail deposits-to-loans ratio was 66% as at December 31, 2013, in line with December 31, 2012 and was maintained within the

Bank's target range of 60% to 70% throughout the Half Year ended December 31, 2013.

- Net interest income increased 1.7% from A$484 million for the Half Year ended December 31, 2012 to A$492 million during the Half Year ended December 31, 2013, primarily due to lower interest expenses for deposits and funding, as a result of the Bank's active repricing of retail and wholesale funding, and despite significant de-risking of the statement of financial position through the run off of higher margin corporate and property assets in the Non-Core Portfolio.

- Net interest margin of 1.66% for the Half Year ended December 31, 2013 increased from 1.60% for the Half Year ended December 31, 2012, due to improved retail product spreads.

- Other operating income decreased 57.4% from A$47 million for the Half Year ended December 31, 2012 to A$20 million for the Half Year ended December 31, 2013, principally due to net mark-to-market losses on financial instruments of A$19 million, largely in connection with the repurchase of A$1.1 billion of Australian government-guaranteed debt.

- Operating expenses increased marginally from A$303 million for the Half Year ended December, 2012 to A$305 million for the Half Year ended December 31, 2013, primarily due to the costs of absorbing the residual Non-Core Portfolio into the Bank's overall lending portfolio, which was partly offset by the Bank's cost management initiatives. The cost-to-income ratio for the Half Year ended December 31, 2013 was 59.6% compared with 57.1% for the Half Year ended December 31, 2012.

- Impairment expense on loans, advances and other receivables decreased 76.8% from A$194 million for the Half Year ended December 31, 2012 to A$45 million for the Half Year ended December 31, 2013, largely due to the run off of the Non-Core Portfolio. Credit impairment losses in the Half Year ended December 31, 2013 were 0.35% of credit risk weighted assets and 0.18% of gross loans and advances. However, prolonged adverse weather conditions in Queensland and New South Wales continued to impact credit performance, particularly in the Bank's agribusiness loan portfolio.

The Bank's consolidated effective tax rate for the Half Year ended December 31, 2013 (as part of the Suncorp Group Limited consolidated tax group) was 29.8%, compared to 71.2% for the Half Year ended December 31, 2012. Income tax expense adjustments have primarily arisen from non-deductible interest paid in respect of the Bank's convertible preference shares (A$0 for the Half Year ended December 31, 2013 and A$5.2 million for the Half Year ended December 31, 2012) and the Bank's reset preference shares (A$0.1 million for the Half Year ended December 31, 2013 and A$0.2 million for the Half Year ended December 31, 2012).

Lending Growth. The Bank's loans, advances and other receivables, including securitized assets of A$49.1 billion as at December 31, 2013 were in line with A$48.8 billion as at December 31, 2012. The result included A$3.1 billion run off of the corporate and property assets. The total retail and business loan portfolio of A$48.9 billion at December 31, 2013, which excluded the residual Non-Core Portfolio, increased 6.8% from A$45.8 billion at December 31, 2012.

	As at December 31, 2013	As at December 31, 2012	Percentage Change
	(A$ millions)		*(%)*
Housing loans	31,329	28,614	9.5
Securitized housing loans and covered bonds	6,955	7,349	(5.4)
Total housing loans	**38,284**	**35,963**	6.5
Consumer loans	452	464	(2.6)
Total retail loans	**38,736**	**36,427**	6.3
Commercial/SMEs	5,666	5,297	7.0
Agribusiness	4,484	4,039	11.0
Total business loans	**10,150**	**9,336**	8.7
Total retail and business loans	**48,886**	**45,763**	6.8
Corporate and property	**298**	**3,422**	(91.3)
Total lending	**49,184**	**49,185**	-
Other receivables[1]	100	58	72.4
Gross banking loans, advances and other receivables	**49,284**	**49,243**	0.1
Provision for impairment	(210)	(473)	(55.6)
Loans, advances and other receivables[2]	**49,074**	**48,770**	0.6
Credit risk-weighted assets	**25,407**	**27,423**	(7.4)
Geographical breakdown – gross banking loans, advances and other receivables			
Queensland	28,448	28,889	(1.5)
Outside of Queensland	20,736	20,296	2.2
New South Wales	11,777	11,431	3.0
Victoria	4,372	4,487	(2.6)
Western Australia	3,119	3,059	2.0
South Australia and other	1,468	1,319	11.3
Total lending	**49,184**	**49,185**	-

(1) Other receivables are primarily collateral deposits provided to derivative counterparties.

(2) During the Fiscal Year ended June 30, 2013, the Bank changed its reporting of collateral received on derivative asset positions and collateral posted on derivative liability positions to better reflect the nature of the assets and liabilities. This change has been reflected in the Bank's consolidated statement of financial position as at December 31, 2013 and June 30, 2013. For comparability purposes, the Bank's consolidated statement of financial position as at June 30, 2012 has been restated, resulting in an increase in the Bank's receivables due from other banks of A$1.89 billion, a corresponding decrease in the Bank's loans, advances and other receivables of A$1.89 billion, an increase in the Bank's payables due to other banks by A$23 million and a corresponding decrease in the Bank's deposits and short-term borrowings of A$23 million. See "Financial Information Presentation" and Note 2 to the Bank's 2013 annual financial statements for further information.

Retail loans increased 6.3% from A$36.4 billion as at December 31, 2012 to A$38.7 billion as at December 31, 2013, driven primarily by strong housing lending. Home lending receivables (excluding securitized housing loans and covered bonds) increased 9.5% from A$28.6 billion as at December 31, 2012 to A$31.3 billion as at December 31, 2013, primarily due to the Bank's investment in direct and intermediated loan distribution in Australian states other than Queensland, particularly in New South Wales and Western Australia. During the Half Year ended December 31, 2013, the Bank's portfolio outside of Queensland accounted for 45% of total retail lending. The Bank's lending growth also benefited from ongoing simplification and automation of loan origination processes combined with an emphasis on retention and post-settlement engagement. As at December 31, 2013, 80% of home loan customers who were new customers of the Bank also held a transactional account with the Bank, which represents an increase from 60% as at December 31, 2012.

Business loans decreased 18.1% from A$12.8 billion as at December 31, 2012 to A$10.4 billion as at December 31, 2013, primarily due to the decrease in corporate and property loans. The commercial/SME portfolio grew by 7% from A$5.3 billion as at December 31, 2012 to A$5.7 billion as at December 31, 2013, primarily due to growth across a range of industries, which was partly offset by heightened price competition and refinancing activity by customers. The portfolio remained well-diversified across industry and continued to increase by geography. As at December 31, 2013, 68% of the commercial/SME loan portfolio was located within Queensland compared to 71% at December 31, 2012. The Bank's agribusiness loan portfolio increased 11% from A$4.0 billion as at December 31, 2012 to A$4.5 billion as at December 31, 2013, largely due to the Bank's long heritage and strength of brand in the agribusiness sector continuing to underpin growth across the Bank's core Queensland and New South Wales markets during the Half Year ended December 31, 2013.

The corporate and property loan portfolio comprises the residual Non-Core Portfolio, which decreased 60% from A$735 million as at June 30, 2013 to A$298 million at December 31, 2013 primarily due to the sale of the A$1.6 billion of loans in the Non-Core Portfolio. Impaired assets on the residual Non-Core Portfolio as at December 31, 2013 amounted to A$149 million or 50% of such loans. Provisioning allocated against the impaired loans remained in line with the prior corresponding period with specific provision coverage of 31% and grossed up coverage of 56%.

Net Interest Income. Net interest income increased 2% from A$484 million for the Half Year ended December 31, 2012 to $492 million for the Half Year ended December 31, 2013. This was primarily due to lower interest expenses for deposits and funding, as a result of the Bank's active repricing of retail and wholesale funding, despite a decrease in lending assets, as the Bank undertook a significant de-risking of its higher margin corporate and property assets, as well as by margin compression on low cost deposits due to heightened price competition in the market.

	Half Year ended December 31,		**Percentage Change**
	2013	**2012**	
	(A$ millions)		*(%)*
Net interest income			
Interest income	1,515	1,787	15.2
Interest expense	(1,023)	(1,303)	(21.5)
Total net interest income	**492**	**484**	1.7

Net interest margin on interest earning assets increased from 1.60% for the Half Year ended December 31, 2012 to 1.66% for the Half Year ended December 31, 2013. Lower yields on invested capital, margin compression on low costs deposits and heightened price competition were offset by spread improvement in residential mortgage lending.

	Half Year ended December 31,	
	2013	**2012**
Net interest margin[(1)]		
Interest-earning assets	1.66%	1.60%
Lending Assets	2.02%	1.97%

(1) Based on average statement of financial position.

The table below illustrates the Bank's average statement of financial position and annualized average interest rate, as broken down by asset type for the Half Years ended December 31, 2013 and 2012.

	Half Year ended December 31, 2013			Half Year ended December 31, 2012		
	Average Balance	**Interest**	**Average Rate**	**Average Balance**	**Interest**	**Average Rate**
	(A$ millions)		*(%)*	*(A$ millions)*		*(%)*
Assets						
Interest earning assets						
Trading and investment securities	10,264	179	3.46	11,312	238	4.17
Gross loans, advances and other receivables[(1)]	48,435	1,336	5.47	48,792	1,546	6.29
Total interest earning assets	**58,699**	**1,515**	**5.12**	**60,104**	**1,784**	**5.89**
Non-interest earning assets						
Other assets	1,150			30		
Total non-interest earning assets	1,150			30		
Total assets	**59,849**			**60,134**		
Liabilities						
Interest-bearing liabilities						
Retail deposits	31,928	551	3.42	30,118	656	4.32
Wholesale liabilities	22,727	451	3.94	24,678	614	4.94
Debt capital	**851**	**21**	**4.90**	**1,265**	**30**	**4.70**
Total interest-bearing liabilities	**55,506**	**1023**	**3.66**	**56,061**	**1,300**	**4.60**
Non-interest-bearing liabilities						
Other liabilities	850			1,033		
Total non-interest-bearing liabilities	850			1,033		
Total liabilities	**56,356**			**57,094**		
Average shareholders equity	**3,493**			**3,040**		
Analysis of interest margin and spread						
Interest earning assets	58,699	1,515	5.12	60,104	1,784	5.89
Interest-bearing liabilities	55,506	1,023	3.66	56,061	1,300	4.60
Net interest spread			**1.46**			**1.29**
Interest-earning assets net interest margin	**58,699**	**492**	**1.66**	**60,104**	**484**	**1.60**
Lending assets net interest margin	**48,435**	**492**	**2.02**	**48,792**	**484**	**1.97**

(1) During the Fiscal Year ended June 30, 2013, the Bank changed its reporting of collateral received on derivative asset positions and collateral posted on derivative liability positions to better reflect the nature of the assets and liabilities. This change has been reflected in the Bank's consolidated statement of financial position as at December 31, 2013 and June 30, 2013. For comparability purposes, the Bank's consolidated statement of financial position as at June 30, 2012 has been restated, resulting in a decrease in the Bank's gross loans, advances and other receivables of A$1.89 billion. See "Financial Information Presentation" and Note 2 to the Bank's 2013 annual financial statements for further information.

Other operating income. Other operating income decreased 57.4% from A$47 million for the Half Year ended December 31, 2012 to A$20 million for the Half Year ended December 31, 2013, primarily due to mark-to-market losses of A$19 million, largely in connection with the repurchase of A$1.1 billion of Australian government-guaranteed debt and lower net banking fee income, as customers continued to switch to lower fee products, which was partially offset by realized gains on the sale of treasury bank book assets.

Net banking fee income decreased 5.1% from A$39 million for the Half Year ended December 31, 2012 to A$37 million for the Half Year ended December 31, 2013, primarily due to lower fee generation from the Bank's retail product portfolios, as customers continued to switch to lower fee products, and higher commissions paid to intermediaries as a result of higher volumes of loans generated through the intermediate channel.

	Half Year ended December 31,		Percentage Change
	2013	2012	
	(A$ millions)		*(%)*
Other operating income			
Net banking fee income	37	39	5.1
Mark-to-market on financial instruments	(19)	8	n/a
Other income	2	0	n/a
Other operating income	**20**	**47**	(57.4)

Operating Expenses. The Bank's operating expenses of A$305 million for the Half Year ended December 31, 2013 were broadly in line with A$303 million for the Half Year ended December 31, 2012. Expenses associated with higher sales volumes, expansion of the Bank's footprint primarily in New South Wales and Western Australia, and expenses associated with the Banking Platform Project and the continuation of the Basel II advanced accreditation program were partly offset by cost reductions as the Bank continued to leverage the Group's economies of scale in procurement to reduce costs associated with occupancy, technology and communications.

The Bank's cost-to-income ratio was 59.6% for the Half Year ended December 31, 2013, compared to 57.1% for the Half Year ended December 31, 2012.

Loan Impairment. Impairment losses decreased 77% from A$194 million for the Half Year ended December 31, 2012 to A$45 million for the Half Year ended December 31, 2013, largely due to the run off of the Non-Core Portfolio. Credit impairment losses (annualized) for the Half Year ended December 31, 2013 were 0.35% of credit risk weighted assets and 0.18% of gross loans and advances.

	As at December 31,		Percentage Change
	2013	2012	
	(A$ millions)		*(%)*
Gross balances of impaired loans			
with specific provisions set aside	335	1,741	(80.8)
without specific provisions set aside	81	119	(31.9)
Gross impaired assets	416	1,860	(77.6)
Specific provision for impairment	(113)	(332)	(66.0)
Net impaired assets	**303**	**1,528**	(80.2)
Size of gross impaired assets			
Less than one million	34	35	(2.9)
Greater than one million but less than ten million	204	265	(23.0)
Greater than ten million	178	1,560	(88.6)
Gross impaired assets	**416**	**1,860**	(77.6)
Past due loans not shown as impaired assets			
Impaired assets do not include loans accruing interest which are in arrears 90 days or more where the loans are well secured. Interest revenue continues to be recognized in the contribution to profit. The value of past due loans equals	445	324	37.3
Gross non-performing loans	**861**	**2,184**	(60.6)
Gross impaired assets as a percentage of gross loans, advances and other receivables[(1)]	0.84%	3.78%	
Gross non-performing loans as a percentage of gross loans, advances and other receivables[(2)]	1.75%	4.44%	

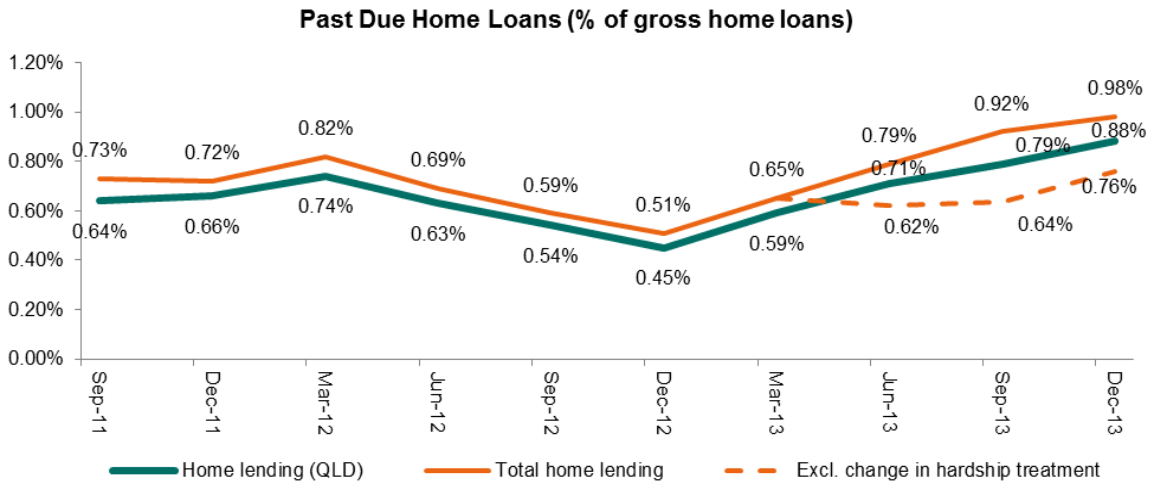
	Half Year ended December 31,		Percentage Change
	2013	2012	*(%)*
Analysis of movements in gross impaired assets			
Balance at the beginning of the period	**506**	**2090**	(75.8)
Recognition of new impaired assets	113	227	(50.2)
Increases in previously recognized impaired assets	1	27	(96.3)
Impaired assets written off/sold during the year	(124)	(191)	(35.1)
Impaired assets which have been reclassified as performing assets or repaid	(80)	(293)	(72.7)
Balance at period end	**416**	**1,860**	(77.6)

(1) Calculated as (gross impaired assets) / (gross banking loans, advances and other receivables) for the end of the period.

(2) Calculated as (gross non-performing loans) / (gross banking loans, advances and other receivables) for the end of the period.

Gross impaired assets decreased 77.6% from A$1,860 million as at December 31, 2012 to A$416 million as at December 31, 2013, largely due to the run off of the Non-Core Portfolio. Impairments in the agribusiness loan portfolio were due to a higher number of non-performing loans affected by adverse weather conditions impacting certain customers during the Half Year ended December 31, 2013, primarily in Queensland and New South Wales.

Past due loans not shown as impaired. Retail past due loans for the Half Year ended December 31, 2013 remained higher than that for the Half Year ended December 31, 2012, due to the recent changes to the Bank's hardship loan reporting. Following regulatory changes, the Bank undertook a review of its hardship policy and processes during the Fiscal Year ended June 30, 2013. As a result of the changes implemented, there was an increase in the level of arrears and past due housing loans reported for Fiscal Year ended June 30, 2013. The increase in hardship volumes did not impact impairment levels for the Half Year ended December 31, 2013.



A breakdown of impaired assets and specific provisions as at December 31, 2013 and 2012 are as follows:

	Half Year ended December 31,		Percentage Change
	2013	**2012**	
	(A$ millions)		*(%)*
Collective provision			
Balance at the beginning of the period	102	145	(29.7)
(Credit)/charge against contribution to profit	(5)	(4)	25.0
Balance at end of the period	**97**	**141**	(31.2)
Specific provision			
Balance at the beginning of the period	198	392	(49.5)
Charge against contribution to profit	48	196	(75.5)
Write-off of impaired assets	(124)	(191)	(35.1)
Unwinding of interests	(9)	(65)	(86.2)
Balance at end of the period	**113**	**332**	(66.0)
Total provision for impairment – Banking activities	**210**	**473**	(55.6)
General reserve for credit loss[1]			
Balance at the beginning of the period	131	147	(10.9)
Transfer from retained earnings	(6)	(14)	(57.1)
Balance at end of the period	**125**	**133**	(6.0)
Pre-tax equivalent coverage	**179**	**190**	(5.8)
Total provision for impairment and general reserve for credit loss – Banking activities	**389**	**663**	(41.3)
Provision for impairment expressed as a percentage of gross impaired assets are as follows:	%	%	
Collective provision	23.3	7.6	
Specific provision	27.2	17.8	
Total provision	50.5	25.4	
General reserve for credit loss	43.0	10.2	
Total provision and general reserve for credit loss	**93.5**	**35.6**	

(1) The general reserve for credit losses comprises transfers from retained profits required where the Bank's specific and collective provisions for impairment are insufficient relative to APRA's provisioning requirements. While this disclosure is additional to the requirements of AASBs and IFRS, common practice in the Australian reporting environment is to disclose the general reserve for credit losses and associated ratios as presented in the table above.

	As at December 31, 2013[1] (*A$ millions*)			As at December 31, 2012[1] (*A$ millions*)		
	Gross Loans	**Impaired Assets**	**Specific Provisions**	**Gross Loans**	**Impaired Assets**	**Specific Provisions**
Agribusiness	4,115	168	41	3,771	114	29
Construction and development	643	70	20	2,071	1,040	209
Financial services	519	0	0	1,522	0	0
Hospitality	1,014	40	12	1,083	94	3
Manufacturing	402	27	8	428	13	0
Professional services	262	4	2	265	4	2
Property investment	1,988	21	8	2,968	467	77
Real estate mortgage	34,637	22	5	32,976	31	5
Personal	452	0	0	383	0	0
Government and public authorities	2	0	0	1	0	0
Other commercial and industrial	1,955	64	17	1,818	97	7
Total	**45,989**	**416**	**113**	**47,286**	**1,860**	**332**

(1) The table as at December 31, 2013 and December 31, 2012 has been prepared in accordance with APS330 as in effect as of December 31, 2013 and December 31, 2012.

Comparison of the Fiscal Year ended June 30, 2013 to the Fiscal Year ended June 30, 2012

Overview. The Bank reported a net loss of A$349 million for the Fiscal Year ended June 30, 2013 compared to a profit of A$22 million for the Fiscal Year ended June 30, 2012. This result was primarily driven by:

- a 0.9% decrease in net profit before tax in the Core Bank from A$431 million for the Fiscal Year ended June 30, 2012 to A$427 million for the Fiscal Year ended June 30, 2013, largely due to a 34% reduction in other operating income;

- a 9.4% increase in housing loans to A$37.2 billion and 10.3% increase in business loans receivables to A$9.8 billion, which largely offset the effect of a 4.9% increase in operating expenses to A$554 million and the 10.9% increase in gross non-performing loans to A$592 million; and

- an increase in net loss before tax in the Non-Core Bank from A$392 million for the Fiscal Year ended June 30, 2012 to A$902 million for the Fiscal Year ended June 30, 2013, largely driven by a 69% decrease in net interest income from A$32 million to A$10 million, a A$9 million loss incurred as a result of an early buyback of Australian government-guaranteed debt and a A$484 million loss incurred as a result of the sale of the A$1.6 billion of loans previously held as part of the Non-Core Portfolio.

The Bank's consolidated effective tax rate for the Fiscal Year ended June 30, 2013 was 27.9% as compared to 33.3% for the Fiscal Year ended June 30, 2012 (as part of the Suncorp Group Limited consolidated tax group). Income tax expense adjustments have primarily arisen from non-deductible interest paid in respect of the Bank's convertible preference shares and the Bank's reset preference shares (A$33.3 million for the Fiscal Year ended June 30, 2013 and A$42.6 million for the Fiscal Year ended June 30, 2012).

Core Bank and Non-Core Bank Results. In 2009, the Bank commenced a program to run down its A$18 billion portfolio in corporate, development finance and property investment loans in an

orderly fashion through organic run off and loan sales. The Non-Core Bank results reflect the activities and operations in connection with the run off and loan sale of the Non-Core Portfolio during the relevant periods. The Core Bank results reflect those activities of the Bank outside of the run off and sale of the Non-Core Portfolio. Following the sale of a substantial portion of the Non-Core Portfolio with a book value of A$1.6 billion in June 2013, the Bank ceased disclosing its non-core business separately from its core business commencing with the Half Year ended December 31, 2013 and the residual portion of the Non-Core Portfolio is now managed as part of the overall Bank's lending portfolio.

Core Bank

The following table presents the Core Bank's profit contribution to the Bank for the Fiscal Years ended June 30, 2013 and 2012:

	Fiscal Year ended June 30, 2013	2012	Percentage Change
	(A$ millions)		*(%)*
Net interest income	**976**	**896**	8.9
Other operating income			
Net banking fee income	70	84	(16.7)
Mark-to-market on financial instruments	(6)	15	n/a
Other income	5	5	-
Other operating income	**69**	**104**	(33.7)
Total income	**1,045**	**1,000**	4.5
Operating expenses	**(554)**	**(528)**	4.9
Profit before impairment losses on loans and advances	**491**	**472**	4.0
Impairment losses on loans and advances	(64)	(41)	56.1
Profit before tax	**427**	**431**	(0.9)

Overview. The Core Bank reported a net profit before tax of A$427 million for the Fiscal Year ended June 30, 2013, a decrease of 0.9% from A$431 million for the Fiscal Year ended June 30, 2012. This result was achieved against a backdrop of subdued markets throughout the Fiscal Year ended June 30, 2013, with Australian system growth below long-term trends. The Core Bank continued to position itself as an alternative to the four major Australian banks, with total lending growth of 9.5% from A$43.4 billion as at June 30, 2012 to A$47.5 billion as at June 30, 2013.

Highlights for the Core Bank's net profit for the Fiscal Year ended June 30, 2013 included:

- Housing loans increased 6.4% from A$27.6 billion for the Fiscal Year ended June 30, 2012 to A$29.4 billion for the Fiscal Year ended June 30, 2013, while business loans for the same period increased 10.3% from A$8.9 billion for the Fiscal Year ended June 30, 2012 to A$9.8 billion for the Fiscal Year ended June 30, 2013, largely due to the Bank's continued focus on increasing its brand presence in the Queensland market while expanding its portfolio outside of Queensland, primarily in New South Wales and Western Australia.

- Retail deposits increased 5.6% from A$29.9 billion as at June 30, 2012 to A$31.6 billion as at June 30, 2013, largely due to growth in the retail deposit customer base as a result of the Bank's expansion outside of Queensland, primarily in New South

Wales and Western Australia. The Core Bank's retail deposit to core lending ratio was 66.5% as at June 30, 2013, compared to 69% as at June 30, 2012 and maintained within the target range of 60% to 70% throughout the Fiscal Year ended June 30, 2013.

- Net interest income for the Fiscal Year ended June 30, 2013 increased 8.9% from A$896 million for the Fiscal Year ended June 30, 2012 to A$976 million for the Fiscal Year ended June 30, 2013, in line with growth in average lending assets. Net interest margin was in line with the prior corresponding period at 1.86% due to asset repricing, management of the Core Bank's funding mix and the timing of new loan issuances.

- Other operating income for the Fiscal Year ended June 30, 2013 decreased 33.7% from A$104 million for the Fiscal Year ended June 30, 2012 to A$69 million for the Fiscal Year ended June 30, 2013 due to a decline in net banking fee income as customers continued to migrate to low fee products.

- Operating expenses increased 4.9% from A$528 million for the Fiscal Year ended June 30, 2012 to A$554 million for the Fiscal Year ended June 30, 2013, primarily due to increased expenses associated with higher sales volumes, expansion of the Core Bank footprint, the Banking Platform Project and the continuation of the Basel II advanced accreditation program.

- Gross non-performing loans increased 10.9% from A$534 million as at June 30, 2012 to A$592 million as at June 30, 2013, largely due to a review of the Bank's hardship policies and processes that resulted in an increase in the level of arrears and past due housing loans reported. Gross non-performing loans represented 1.2% of gross loans and advances as at June 30, 2013.

- Impairment losses increased 56.1% from A$41 million for the Fiscal Year ended June 30, 2012 to A$64 million for the Fiscal Year ended June 30, 2013, due to a number of older exposures becoming past due and impaired and due to an increase in the number of impaired loans to customers who were impacted by adverse weather conditions and natural disasters, primarily in Queensland and New South Wales. Overall credit losses trended within the Core Bank's normal operating range and were within the Bank's risk appetite.

Lending Growth. The Bank's loans, advances and other receivables, including securitized assets, increased 9.6% from A$43.2 billion as at June 30, 2012 to A$47.4 billion as at June 30, 2013.

	As at June 30, 2013	2012	Percentage Change
	(A$ millions)		*(%)*
Housing loans	29,399	27,639	6.4
Securitized housing loans and covered bonds	7,759	6,316	22.8
Total housing loans	**37,158**	**33,955**	9.4
Consumer loans	463	482	(3.9)
Total retail loans	**37,621**	**34,437**	9.2
Commercial/SMEs	5,531	5,063	9.2
Agribusiness	4,311	3,856	11.8
Total business loans[1]	**9,842**	**8,919**	10.3
Total lending	**47,463**	**43,356**	9.5
Other receivables[2]	57	-	n/a
Gross banking loans, advances and other receivables	**47,520**	**43,356**	9.6
Provision for impairment	(136)	(129)	5.4
Loans, advances and other receivables	**47,384**	**43,227**	9.6
Credit risk-weighted assets	**24,459**	**22,606**	8.2
Geographical breakdown – gross banking loans, advances and other receivables			
Queensland	28,000	26,687	4.9
Outside of Queensland	19,463	16,669	16.8
New South Wales	10,887	9,044	20.4
Victoria	4,142	3,780	9.6
Western Australia	3,042	2,623	16.0
South Australia and other	1,392	1,222	13.9
Total lending	**47,463**	**43,356**	9.5

(1) During the Fiscal Year ended June 30, 2012, business loans balances were adjusted to reflect interest not brought to account, which was previously reported under "Other receivables". This restatement reduced Business loans balances by A$23 million for the Fiscal Year ended June 30, 2012.

(2) Other receivables are primarily collateral deposits provided to derivative counterparties.

Retail loans increased 9.2% from A$34.4 billion as at June 30, 2012 to A$37.6 billion as at June 30, 2013, driven primarily by strong housing lending. Housing loans grew 9.4% from A$34.0 billion as at June 30, 2012 to A$37.2 billion as at June 30, 2013, primarily due to the Bank's channel and geographic expansion. The Bank continued to focus on the conversion of broker-introduced customers to "complete customers", namely, customers who have multiple products with the Group, including a deposit or transaction account with the Bank. The increase in retail loans was offset by a 3.9% decrease in consumer lending from A$482 million as at June 30, 2012 to $463 million as at June 30, 2013, primarily due to ongoing consumer deleveraging by customers in response to the market environment.

Business loans increased 10.3% from A$8.9 billion as at June 30, 2012 to A$9.8 billion as at June 30, 2013. The commercial/SME portfolio increased 9.2% from A$5.1 billion as at June 30, 2012 to A$5.5 billion as at June 30, 2013, primarily due to an increased new business across a range of industries. The portfolio's geographic concentration and sector diversity remained relatively unchanged. The agribusiness loan portfolio increased 11.8% from A$3.9 billion as at June 30, 2012 to A$4.3 billion as at June 30, 2013, primarily due to growth in market share across Queensland and New South Wales.

Net Interest Income. Net interest income increased 8.9% from A$896 million as at June 30, 2012 to A$976 million as at June 30, 2013. The result was driven by a reduction in funding costs consistent with a lower interest rate environment, offset by margin compression on low cost deposits and ongoing price competition in investments/term deposits as the Australian banking industry shifted its funding mix towards retail deposits. Net interest income also benefitted from pricing initiatives which saw the Bank pass on approximately 119 bps of the 150 bps reduction in the cash rate since May 2012. Funding and lending volumes remained relatively unchanged as strong growth in mortgages and business lending assets were offset by significantly reduced non-core assets.

	Fiscal Year ended June 30, 2013	2012	Percentage Change
	(A$ millions)		*(%)*
Net interest income			
Lending Assets	2,752	2,877	(4.3)
Other Assets[1]	295	337	(12.5)
Interest expenses for deposits and funding	(2,071)	(2,318)	(10.7)
Total net interest income	**976**	**896**	8.9

(1) Includes liquid asset portfolio (as defined below). See "— Liquidity and Capital Resources — Sources of Liquidity."

Net interest margin for the Fiscal Year ended June 30, 2013 was relatively stable due to asset repricing, management of the Core Bank's funding mix and the timing of new loan issuances. The net interest margin for interest-earning assets decreased from 1.91% for the Fiscal Year ended June 30, 2012 to 1.86% for the Fiscal Year ended June 30, 2013 and the net interest margin for lending assets decreased from 2.19% for the Fiscal Year ended June 30, 2012 to 2.15% for the Fiscal Year ended June 30, 2013. Asset repricing actions, taken in line with the rest of the Australian banking industry, kept the net interest margins stable despite lower retail funding margins due to heightened competition in the term deposit markets. Net interest margins also benefited from the timing difference between funding and loan repricing.

	Fiscal Year ended June 30, 2013	2012
Net interest margin[1]		
Interest-earning assets	1.86%	1.91%
Lending Assets	2.15%	2.19%

(1) Based on average statement of financial position.

The table below illustrates the Core Bank's average statement of financial position and annualized average interest rate, as broken down by asset type for the Fiscal Years ended June 30, 2013 and 2012.

	Fiscal Year ended June 30, 2013			Fiscal Year ended June 30, 2012		
	Average Balance	**Interest**	**Average Rate**	**Average Balance**	**Interest**	**Average Rate**
	(A$ millions)		*(%)*	*(A$ millions)*		*(%)*
Assets						
Interest earning assets						
Trading and investment securities	7,102	295	4.15	6,135	337	5.49
Gross loans, advances and other receivables	45,398	2,752	6.06	40,835	2,877	7.05
Total interest earning assets	**52,500**	**3,047**	**5.80**	**46,970**	**3,214**	**6.84**
Non-interest earning assets						
Other assets	933			785		
Total non-interest earning assets	**933**			**785**		
Total assets	**53,433**			**47,755**		
Liabilities						
Interest-bearing liabilities						
Retail deposits	30,450	1,239	4.07	28,418	1,427	5.02
Wholesale liabilities	18,289	787	4.30	15,201	832	5.47
Debt capital	993	45	4.53	1,075	59	5.49
Total interest-bearing liabilities	**49,732**	**2,071**	**4.16**	**44,694**	**2,318**	**5.19**
Non-interest-bearing liabilities						
Other liabilities	951			941		
Total non-interest-bearing liabilities	**951**			**941**		
Total liabilities	**50,683**			**45,635**		
Average shareholders equity	**2,750**			**2,120**		
Analysis of interest margin and spread						
Interest earning assets	52,500	3,047	5.80	46,970	3,214	6.84
Interest-bearing liabilities	49,732	2,071	4.16	44,694	2,318	5.19
Net interest spread			**1.64**			**1.65**
Interest-earning assets net interest margin	**52,500**	**976**	**1.86**	**46,970**	**896**	**1.91**
Lending assets net interest margin	**45,398**	**976**	**2.15**	**40,835**	**896**	**2.19**

Other operating income. Other operating income decreased 33.7% from A$104 million for the Fiscal Year ended June 30, 2012 to A$69 million for the Fiscal Year ended June 30, 2013, due to mark-to-market losses of A$6 million and lower net banking fee income, as consumers continued to migrate to low fee products. The mark-to-market losses included unrealized losses on short term derivative positions that had been entered into by the Bank for liquidity and risk management

purposes, and which were partly offset by realized gains on the sale of the Bank's treasury book assets.

Net banking fee income decreased 16.7% from A$84 million for the Fiscal Year ended June 30, 2012 to A$70 million for the Fiscal Year ended June 30, 2013, primarily due to subdued consumer confidence, borrowers' propensity to pay down debt and an ongoing preference for low fee products experienced across the banking industry.

The result also included increased commissions paid to broker intermediaries consistent with strong home lending volume growth delivered by the broker intermediary channel.

	Fiscal Year ended June 30,		Percentage Change
	2013	2012	
	(A$ millions)		*(%)*
Other operating income			
Net banking fee income	70	84	(16.7)
Mark-to-market on financial instruments	(6)	15	n/a
Other income	5	5	-
Other operating income	**69**	**104**	(33.7)

Operating Expenses. Operating expenses increased 4.9% from A$528 million for the Fiscal Year ended June 30, 2012 to A$554 million for the Fiscal Year ended June 30, 2013, primarily due to greater investment in the Bank's branch network, and expenses associated with the above system lending growth and increased volumes in deposits and customers. The Bank also incurred expenses in relation to the Core Bank system replacement, Basel II advanced accreditation and the strategic expansion of the branch network.

The Core Bank's cost to income ratio was 53.0% for the Fiscal Year ended June 30, 2013, which was broadly in line with 52.8% for the Fiscal Year ended June 30, 2012.

Loan Impairment. Impairment expenses increased 56.1% from A$41 million as at June 30, 2012 to A$64 million as at June 30, 2013, primarily due to a number of older exposures becoming past due and impaired during the Fiscal Year ended June 30, 2013. There was also an increase in the number of impaired loans to customers who were impacted by adverse weather conditions and natural disasters, primarily in Queensland and New South Wales. This increased specific provisioning for the portfolio by 78% from A$32 million as at ended June 30, 2012 to A$57 million as at June 30, 2013, and correspondingly reduced the collective provisioning in respect of these exposures which had been applied in prior periods. Overall credit losses trended within the Bank's normal operating range and were within the Bank's risk appetite.

	As at June 30, 2013	2012	Percentage Change
	(A$ millions)		*(%)*
Gross balances of impaired loans			
with specific provisions set aside	178	192	(7.3)
without specific provisions set aside	45	49	(8.2)
Gross impaired assets	223	241	(7.5)
Specific provision for impairment	(53)	(46)	15.2
Net impaired assets	**170**	**195**	(12.8)
Size of gross impaired assets			
Less than one million	28	21	33.3
Greater than one million but less than ten million	112	117	(4.3)
Greater than ten million	83	103	(19.4)
Gross impaired assets	**223**	**241**	(7.5)
Loans 90 days past due not shown as impaired assets			
Impaired assets do not include loans accruing interest which are in arrears 90 days or more where the loans are well secured. Interest revenue continues to be recognized in the contribution to profit. The value of past due loans equals	369	293	25.9
Gross non-performing loans	**592**	**534**	10.9
Gross impaired assets as a percentage of gross loans, advances and other receivables[(1)]	0.47%	0.56%	
Gross non-performing loans as a percentage of gross loans, advances and other receivables[(2)]	1.25%	1.23%	

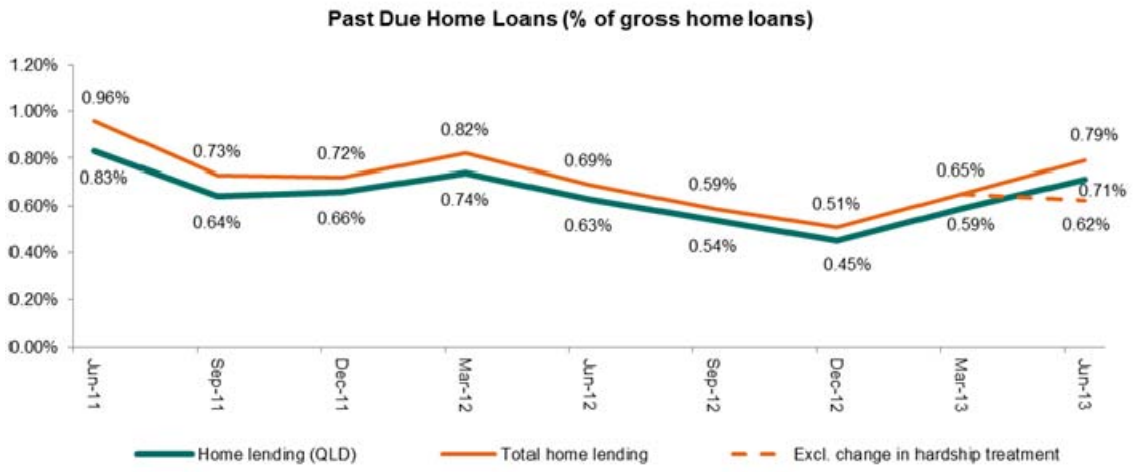
	Fiscal Year ended June 30, 2013	2012	Percentage Change
	(A$ millions)		*(%)*
Analysis of movements in gross impaired assets			
Balance at the beginning of the year	**241**	**146**	65.1
Recognition of new impaired assets	180	168	7.1
Increases in previously recognized impaired assets	4	2	100.0
Impaired assets written off/sold during the year	(41)	(19)	115.8
Impaired assets which have been reclassified as performing assets or repaid	(161)	(56)	187.5
Balance at the year end	**223**	**241**	(7.5)

(1) Calculated as (gross impaired assets) / (gross banking loans, advances and other receivables) for the end of the period.

(2) Calculated as (gross non-performing loans) / (gross banking loans, advances and other receivables) for the end of the period.

Gross impaired assets decreased 7.5% from A$241 million as at June 30, 2012 to A$223 million as at June 20, 3013, representing 0.47% of gross loan advances and other receivables, which was a decrease from 0.56% as at June 30, 2012. This was driven by a reduction of gross impaired assets in a small number of large exposures. Stress was also exhibited in the agribusiness loan portfolio due to a series of weather events impacting the business of clients in this business. Approximately two-thirds of gross impaired assets were related to exposures of less than A$10 million.

Past due loans not shown as impaired. Following regulatory changes, a full review of the Bank's hardship policy and processes was undertaken in the Fiscal Year ended June 30, 2013. As a result of the changes implemented, there was an increase in the level of arrears and past due housing loans reported. Excluding the change to hardship loans, the Bank's past due performance improved from 0.69% to 0.62% of gross loans. The chart below details past due loans as a percentage of gross loans.



A breakdown of impaired assets and specific provisions as at June 30, 2013 and 2012 are as follows:

	Fiscal Year ended June 30, 2013	Fiscal Year ended June 30, 2012	Percentage Change
	(A$ millions)		*(%)*
Collective provision			
Balance at the beginning of the period	83	81	2.5
(Credit)/charge against contribution to profit	-	2	(100.0)
Balance at end of the period	**83**	**83**	**-**
Specific provision			
Balance at the beginning of the period	46	39	17.9
Charge against contribution to profit	57	32	78.1
Write-off of impaired assets	(41)	(16)	156.3
Unwinding of interests	(9)	(9)	-
Balance at end of the period	**53**	**46**	15.2
Total provision for impairment – Banking activities	**136**	**129**	5.4
General reserve for credit loss[(1)]			
Balance at the beginning of the period	102	74	37.8
Transfer from retained earnings	17	28	(39.3)
Balance at end of the period	**119**	**102**	16.7
Pre-tax equivalent coverage	**170**	**146**	16.4
Total provision for impairment and general reserve for credit loss – Banking activities	**306**	**275**	11.3
Provision for impairment expressed as a percentage of gross impaired assets are as follows:	%	%	
Collective provision	37.2	34.4	
Specific provision	23.8	19.1	
Total provision	61.0	53.5	
General reserve for credit loss	76.2	60.6	
Total provision and general reserve for credit loss	**137.2**	**114.1**	

(1) The general reserve for credit losses comprises transfers from retained profits required where the Bank's specific and collective provisions for impairment are insufficient relative to APRA's provisioning requirements. While this disclosure is additional to the requirements of AASBs and IFRS, common practice in the Australian reporting environment is to disclose the general reserve for credit losses and associated ratios as presented in the table above.

A breakdown of impaired assets and specific provisions as at June 30, 2013 and 2012 by portfolio for the total Bank is as follows:

	As at June 30, 2013[1] (A$ millions)			As at June 30, 2012[1] (A$ millions)		
	Gross Loans	**Impaired Assets**	**Specific Provisions**	**Gross Loans**	**Impaired Assets**	**Specific Provisions**
Agribusiness	3,919	129	31	3,644	202	36
Construction and development	790	155	57	2,345	1,264	286
Financial services	560	-	-	2,491	-	-
Hospitality	1,017	39	12	1,093	117	4
Manufacturing	393	13	5	453	14	-
Professional services	259	3	2	286	4	1
Property investment	2,205	44	44	3,129	369	53
Real estate mortgage	33,371	29	6	31,544	26	6
Personal	462	-	-	393	-	-
Government and public authorities	1	-	-	1	-	-
Other commercial and industrial	1,967	94	41	2,084	94	6
Total	**44,944**	**506**	**198**	**47,463**	**2,090**	**392**

(1) The table as at June 30, 2013 and June 30, 2012 has been prepared in accordance with APS330 as in effect as of June 30, 2013 and June 30, 2012.

Non-Core Bank

The following table presents the contribution of the Non-Core Bank to the Bank's profit/loss for the Fiscal Years ended June 30, 2013 and 2012:

	Fiscal Year ended June 30,		Percentage Change
	2013	**2012**	
	(A$ millions)		*(%)*
Net interest income	**10**	**32**	(68.8)
Other operating income			
Net banking fee income	7	12	(41.7)
Other income	(16)	24	n/a
Other operating income	**(9)**	**36**	n/a
Total income	**1**	**68**	(98.5)
Operating expenses	**(65)**	**(69)**	(5.8)
Profit before impairment losses on loans and advances	**(64)**	**(1)**	(large)
Loss on sale of loans and advances[1]	(527)	(27)	(large)
Impairment losses on loans and advances	(311)	(364)	(14.6)
Profit before tax	**(902)**	**(392)**	130.1

(1) The loss on sale of loans and advances during the Fiscal Year ended June 30, 2013 related to the disposal of A$1.6 billion of loans in the Non-Core Portfolio in June 2013 and other costs associated

with smaller transactions throughout the period. The figure for the Fiscal Year ended June 30, 2012 has been restated on the same basis to reflect an impairment expense of A$27 million for the Fiscal Year ended June 30, 2012. The resulting impact was a corresponding adjustment in other income of the Non-Core Bank from A$(3) million to A$24 million for the Fiscal Year ended June 30, 2012. See "Summary — Recent Developments — Reduction of the Non-Core Portfolio" for more information about the Bank's disposal of the Non-Core Portfolio.

Overview. On June 13, 2013, the Bank announced the sale of a A$1.6 billion portfolio of corporate and property assets. The sale was settled on July 31, 2013. The Non-Core Bank incurred a pre-tax loss of A$484 million on the sale of the substantial portion of the Non-Core Portfolio. This contributed to the A$632 million after tax loss for the Fiscal Year ended June 30, 2013. See "Summary — Recent Developments — Reduction of Non-Core Portfolio" for further information.

Highlights for the Non-Core Bank's Fiscal Year ended June 30, 2013 included:

- Non-Core run off totaled A$2.7 billion for the Fiscal Year ended June 30, 2013, driven primarily by the sale of a substantial portion of the Non-Core Portfolio, which reduced the residual portfolio to A$735 million at June 30, 2013.

- Net interest income for the Non-Core Portfolio decreased 68.8% from A$32 million for the Fiscal Year ended June 30, 2012 to A$10 million for the Fiscal Year ended June 30, 2013 and net banking fee income decreased 41.7% from A$12 million for the Fiscal Year ended June 30, 2012 to A$7 million for the Fiscal Year ended June 30, 2013 due to the decrease in the amount of assets in the Non-Core Portfolio as the assets continued to be sold.

- Operating expenses for the Non-Core Portfolio decreased 5.8% from A$69 million for the Fiscal Year ended June 30, 2012 to A$65 million for the Fiscal Year ended June 30, 2013 as the Bank continued to reduce management and servicing costs associated with the management of the Non-Core Portfolio.

Lending Decline. The amount of loans, advances and other receivables decreased 85.4% from A$4.1 billion as at June 30, 2012 to A$0.6 billion as at June 30, 2013. Excluding other receivables, A$3.7 billion of Non-Core Portfolio assets were run off for the Fiscal Year ended June 30, 2013, which reduced the portfolio by 83.6% from A$4.5 billion in assets as at June 30, 2012 to A$0.7 billion in assets as at June 30, 2013.

	As at June 30, 2013	2012	Percentage Change
	(A$ millions)		*(%)*
Corporate and lease finance	131	1,132	(88.4)
Development finance	214	1,473	(85.5)
Property Investment	390	1,868	(79.1)
Non-Core portfolio	**735**	**4,473**	(83.6)
Other receivables[1]	44	28	57.1
Gross banking loans, advances and other receivables	**779**	**4,501**	(82.7)
Provision for impairment	(164)	(408)	(59.8)
Loans, advances and other receivables[2]	**615**	**4,093**	(85.0)
Credit risk-weighted assets	**905**	**5,396**	(83.2)
Geographical breakdown – gross banking loans, advances and other receivables			
Queensland	254	2,024	(87.5)
New South Wales	325	1,654	(80.4)
Victoria	131	597	(78.1)
Western Australia	24	184	(87.0)
South Australia and other	1	14	(92.9)
Non-Core Portfolio	**735**	**4,473**	(83.6)

(1) Other receivables are primarily collateral deposits provided to derivative counterparties.

(2) During the Fiscal Year ended June 30, 2013, the Bank changed its reporting of collateral received on derivative asset positions and collateral posted on derivative liability positions to better reflect the nature of the assets and liabilities. This change has been reflected in the Bank's consolidated statement of financial position as at December 31, 2013 and June 30, 2013. For comparability purposes, the Bank's consolidated statement of financial position as at June 30, 2012 has been restated, resulting in a decrease in the Bank's loans, advances and other receivables of A$1.89 billion. See "Financial Information Presentation" and Note 2 to the Bank's 2013 annual financial statements for further information.

Net Interest Income. Interest income from lending assets decreased 50.6% from A$470 million for the Fiscal Year ended June 30, 2012 to A$232 million for the Fiscal Year ended June 30, 2013 as the amount of assets in the Non-Core Bank decreased due to the portfolio and individual asset sales during the period. Net interest income decreased in line with portfolio run off. The high level of impaired loans and liquid assets to performing lending assets contributed low to negative returns after funding costs were taken into account.

	Fiscal Year ended June 30, 2013	2012	Percentage Change
	(A$ millions)		*(%)*
Net interest income			
Lending Assets	232	470	(50.6)
Other Assets	135	315	(57.1)
Interest expenses for deposits and funding	(357)	(753)	(52.6)
Total net interest income	**10**	**32**	(68.8)

	Fiscal Year ended June 30,	
	2013	**2012**
Net interest margin[1]		
Interest-earning assets.....	0.13%	0.24%
Lending Assets	0.25%	0.50%

(1) Based on average statement of financial position.

The table below illustrates the Non-Core Bank's average statement of financial position and annualized average interest rate, as broken down by asset type for the Fiscal Years ended June 30, 2013 and 2012.

	Fiscal Year ended June 30, 2013			Fiscal Year ended June 30, 2012		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(A$ millions)		*(%)*	*(A$ millions)*		*(%)*
Assets						
Interest earning assets						
Financial assets	3,806	135	3.55	6,814	315	4.62
Gross loans, advances and other receivables[(1) (2)]	3,981	232	5.83	6,382	470	7.36
Total interest earning assets	**7,787**	**367**	4.71	**13,196**	**785**	5.95
Non-interest earning assets						
Other assets (including loan provisions)	(727)			(1,009)		
Total non-interest earning assets	**(727)**			**(1,009)**		
Total assets	**7,060**			**12,187**		
Liabilities						
Interest-bearing liabilities						
Wholesale liabilities	6,367	349	5.48	10,870	734	6.75
Debt capital	174	8	4.60	341	19	5.57
Total interest-bearing liabilities	**6,541**	**357**	**5.46**	**11,211**	**753**	**6.72**
Non-interest-bearing liabilities						
Other liabilities	-			-		
Total non-interest-bearing liabilities	-			-		
Total liabilities	**6,541**			**11,211**		
Average shareholders equity	**519**			**976**		
Analysis of interest margin and spread						
Interest earning assets	7,787	367	4.71	13,196	785	5.95
Interest-bearing liabilities	6,541	357	5.46	11,211	753	6.72
Net interest spread			**(0.75)**			**(0.77)**
Interest-earning assets net interest margin	**7,787**	**10**	**0.13**	**13,196**	**32**	**0.24**
Lending assets net interest margin	**3,981**	**10**	**0.25**	**6,382**	**32**	**0.50**

(1) During the Fiscal Year ended June 30, 2013, the Bank changed its accounting policy with respect to the treatment of losses on sale related to the Non-Core Portfolio. For comparability purposes, loans, advances and other receivables as at June 30, 2012 has been restated, which resulted in a A$23 million increase. See "Suncorp-Metway Limited — Recent Developments — Reduction of Non-Core Portfolio" for more information about the Bank's disposal of the Non-Core Portfolio.

(2) During the Fiscal Year ended June 30, 2013, the Bank changed its reporting of collateral received on derivative asset positions and collateral posted on derivative liability positions to better reflect the nature of the assets and liabilities. This change has been reflected in the Bank's consolidated statement of financial position as at December 31, 2013 and June 30, 2013. For comparability purposes, the Bank's consolidated statement of financial position as at June 30, 2012 has been restated, resulting in a decrease in the Bank's gross loans, advances and other receivables of A$1.89 billion. See "Financial Information Presentation" and Note 2 to the Bank's 2013 annual financial statements for further information.

Other operating income. Other operating income decreased from A$36 million for the Fiscal Year ended June 30, 2012 to A$(9) million for the Fiscal Year ended June 30, 2013 primarily due to the early buyback of Australian government-guaranteed debt issued by the Bank. The amount of assets in the Non-Core Bank decreased due to the portfolio and individual asset sales during the period.

	Fiscal Year ended June 30,		**Percentage Change**
	2013	**2012**	
	(A$ millions)		*(%)*
Other operating income			
Net banking fee income	7	12	(41.7)
Mark-to-market on financial instruments	-	-	-
Other income	(16)	24	n/a
Other operating income	**(9)**	**36**	n/a

Operating Expenses. Operating expenses for the Non-Core Bank decreased 5.8% from A$69 million for the Fiscal Year ended June 30, 2012 to A$65 million for the Fiscal Year ended June 30, 2013. This included the one-off transaction costs associated with the sale of a substantial portion of the Non-Core Portfolio with a book value of A$1.6 billion.

Loan Impairment. Impairment expenses decreased 14.6% from A$364 million for the Fiscal Year ended June 30, 2012 to A$311 million for the Fiscal Year ended June 30, 2013. Gross non-performing loans decreased 81.4% from A$1,876 million for the Fiscal Year ended June 30, 2012 to A$348 million in the Fiscal Year ended June 30, 2013 due to the sale of a substantial portion of the Non-Core Portfolio with a book value of A$1.6 billion, in addition to the run off of the Non-Core Portfolio.

Impaired assets. Impaired assets decreased from A$1,503 million as at June 30, 2012 to A$138 million as at June 30, 2013, following the sale of a substantial portion the Non-Core Portfolio with a book value of A$1.6 billion. The impairment of a A$60 million exposure also occurred during the final quarter of the Fiscal Year ended June 30, 2013.

Past due loans not shown as impaired. Past due loans increased 140.7% from A$27 million as at June 30, 2012 to A$65 million as at June 30, 2013. This was driven by a number of older exposures becoming past due across a variety of industries. The increase in bad debt expense over the Fiscal Year ended June 30, 2013 was not believed to be a systemic issue, rather it reflected certain non-performing loan groups that have moved to impaired status over the period, recouping collective provisions in turn.

	As at June 30, 2013	As at June 30, 2012	Percentage Change
	(A$ millions)		*(%)*
Gross balances of impaired loans			
with specific provisions set aside	282	1,823	(84.5)
without specific provisions set aside	1	26	(96.2)
Gross impaired assets	283	1,849	(84.7)
Specific provision for impairment	(145)	(346)	(58.1)
Net impaired assets	**138**	**1,503**	(90.8)
Size of gross impaired assets			
Less than one million	4	4	-
Greater than one million but less than ten million	133	145	(8.3)
Greater than ten million	146	1,700	(91.4)
Gross impaired assets	**283**	**1,849**	(84.7)
Loans 90 days past due not shown as impaired assets			
Impaired assets do not include loans accruing interest which are in arrears 90 days or more where the loans are well secured. Interest revenue continues to be recognized in the contribution to profit. The value of past due loans equals	65	27	140.7
Gross non-performing loans	**348**	**1,876**	(81.4)
Gross impaired assets as a percentage of gross loans, advances and other receivables[(1)]	36.3%	29.4%	
Gross non-performing loans as a percentage of gross loans, advances and other receivables[(2)]	44.7%	29.8%	

	Fiscal Year ended June 30, 2013	Fiscal Year ended June 30, 2012	Percentage Change
	(A$ millions)		*(%)*
Analysis of movements in gross impaired assets			
Balance at the beginning of the year	1,849	2,235	(17.3)
Recognition of new impaired assets and increases in previously recognized impaired assets	248	310	(20.0)
Increases in previously recognized impaired assets	38	36	5.6
Impaired assets written off during the year	(1,586)	(267)	large
Impaired assets which have been restated as performing assets or repaid	(266)	(465)	(42.8)
Balance at the year end	**283**	**1,849**	(84.7)

(1) Calculated as (gross impaired assets) / (gross banking loans, advances and other receivables) for the end of the period.

(2) Calculated as (gross non-performing loans) / (gross banking loans, advances and other receivables) for the end of the period.

As part of the resolution of the Non-Core Portfolio, the Bank has increased specific provision coverage of the impaired portfolio to over 50%, with grossed up coverage (excluding partial write-

downs) in excess of 60%. Overall provision coverage, including the equity reserve for credit loss, was 64% of impaired assets as at December 31, 2013.

A breakdown of impaired assets and specific provisions as at June 30, 2013 and 2012 are as follows:

	Fiscal Year ended June 30, 2013	Fiscal Year ended June 30, 2012	Percentage Change
	(A$ millions)		*(%)*
Collective provision			
Balance at the beginning of the period	62	96	(35.4)
(Credit)/charge against contribution to profit	(43)	(34)	26.5
Balance at end of the period	**19**	**62**	(69.4)
Specific provision			
Balance at the beginning of the period	346	348	(0.6)
Charge against contribution to profit	342	374	(8.6)
Write-off of impaired assets	(444)	(239)	85.8
Unwinding of interests	(99)	(137)	(27.7)
Balance at end of the period	**145**	**346**	(58.1)
Total provision for impairment – Banking activities	**164**	**408**	(59.8)
Equity reserve for credit loss			
Balance at the beginning of the period	45	83	(45.8)
Transfer from retained earnings	(33)	(38)	(13.2)
Balance at end of the period	**12**	**45**	(73.3)
Pre-tax equivalent coverage	**17**	**64**	(73.4)
Total provision for impairment and general reserve for credit loss – Banking activities	**181**	**472**	(61.7)
Provision for impairment expressed as a percentage of gross impaired assets are as follows:	%	%	
Collective provision	6.7	3.4	
Specific provision	51.2	18.7	
Total provision	58.0	22.1	
Equity reserve for credit loss	6.0	3.5	
Total provision and general reserve for credit loss	**64.0**	**25.5**	

Comparison of the Fiscal Year ended June 30, 2012 to the Fiscal Year ended June 30, 2011

Overview. Net profit after tax and minority interests decreased 69% from A$84 million for the Fiscal Year ended June 30, 2011 to A$26 million for the Fiscal Year ended June 30, 2012. This result was primarily driven by:

- a 9.1% increase in net profit before tax in the Core Banking division from A$395 million for the Fiscal Year ended June 30, 2011 to A$431 million for the Fiscal Year ended June 30, 2012, largely driven by a 9.6% increase in housing loans from A$31.0 billion to A$34 billion and a 10.7% increase in business loans from A$8.1 billion to A$8.9 billion, which was largely offset by the effect of a 7.3% increase in operating expenses from A$492 million to A$528 million and the 0.4% increase in gross non-performing loans from A$532 million to A$534 million; and

- a 56.8% increase in net loss before tax in the Non-Core Bank from A$250 million for the Fiscal Year ended June 30, 2011 to A$392 million for the Fiscal Year ended June 30, 2012, largely driven by a 56.2% decrease in net interest income from A$73 million to A$32 million and a 66.7% decrease in other operating income from A$27 million to A$9 million as the Non-Core Portfolio assets continued to be sold.

The Bank's consolidated effective tax rate for the Fiscal Year ended June 30, 2012 was 33.3% as compared to 42.9% for the Fiscal Year ended June 30, 2011 (as part of the Suncorp Group Limited consolidated tax group). Income tax expense adjustments of A$42.6 million for the Fiscal Year ended June 30, 2012 increased 14% to A$48.7 million for the Fiscal Year ended June 30, 2011, primarily due to non-deductible interest paid in respect of the Bank's convertible preference shares and the Bank's reset preference shares.

Core Bank

The following table presents the profit contribution of the Core Bank for the Fiscal Years ended June 30, 2012 and 2011:

	Fiscal Year ended June 30,		**Percentage Change**
	2012	**2011**	
	(A$ millions)		*(%)*
Net interest income	**896**	**837**	7.0
Other operating income			
Net banking fee income	84	87	(3.4)
Mark-to-market on financial instruments	15	10	50.0
Other income	5	4	25.0
Other operating income	**104**	**101**	3.0
Total income	**1,000**	**938**	6.6
Operating expenses	**(528)**	**(492)**	7.3
Profit before impairment losses on loans and advances	**472**	**446**	5.8
Impairment losses on loans and advances	(41)	(51)	(19.6)
Profit before tax	**431**	**395**	9.1

Overview. The Core Bank reported a net profit before tax of A$431 million for the Fiscal Year ended June 30, 2012, an increase of 9.1% from A$395 million for the Fiscal Year ended June 30, 2011, primarily due to repricing gains in the mortgage portfolio, which were partly offset by intense competition for retail deposits. This result was achieved against a backdrop of subdued markets throughout the Fiscal Year ended June 30, 2012, with Australian system growth well below long-term trends. The Core Bank continued to position itself as an alternative to the four major Australian banks, with total lending increasing by 9.4% as at June 30, 2012.

Key drivers for the Fiscal Year ended June 30, 2012 included:

- Housing loans for the Fiscal Year ended June 30, 2012 increased 9.6% from A$31.0 billion for the Fiscal Year ended June 30, 2011 to A$34 billion, while, business loans for the same period increased 10.7% from A$8.1 billion for the Fiscal Year ended June 30, 2011 to A$8.9 billion, largely due to the Bank's focus on increasing its brand presence in the Queensland market and its expansion outside of Queensland, particularly in New South Wales and Western Australia.

- Retail deposits increased 7.6% from A$27.8 billion as at June 30, 2011 to A$29.9 billion as at June 30, 2012, largely due to growth of the retail deposit customer base as a result of the Bank's expansion outside of Queensland, primarily in New South Wales and Western Australia. The Core Bank's retail deposit to core lending ratio was 69% as at June 30, 2012, compared to 70% as at June 30, 2011 and maintained within the target range of 60% to 70% throughout the Fiscal Year ended June 30, 2012.

- Net interest income increased 7.0% from A$837 million for the Fiscal Year ended June 30, 2011 to A$896 million, in line with growth in average lending assets. Net interest margin was stable due to asset repricing, management of the Core Bank's funding mix and the timing of new loan issuance. Continued strong competition for term deposits continued to exert downward pressure on retail funding margins.

- Other operating income increased 3.0% from A$101 million for the Fiscal Year ended June 30, 2011 to A$104 million for the Fiscal Year ended June 30, 2012, primarily due to positive mark-to-market movements of A$15 million. Net banking fee income was in line with the prior corresponding period as the Bank continued to experience consumer preference for low fee products.

- Operating expenses grew 7.3% from A$492 million for the Fiscal Year ended June 30, 2011 to A$528 million for the Fiscal Year ended June 30, 2012, primarily due to higher expenses to support higher sales volumes, expansion of the Core Bank footprint and expenses associated with the Banking Platform Project and the commencement of the Basel II advanced accreditation program.

- Gross non-performing loans increased 0.4% from A$532 million as at June 30, 2011 to A$534 million as at June 30, 2012, largely due to the impairment of four business lending exposures, each in excess of A$10 million.

- Impairment losses decreased 19.6% from A$51 million for the Fiscal Year ended June 30, 2011 to A$41 million for the Fiscal Year ended June 30, 2012, largely due to a A$25 million write back of flood provisions. This was partly offset by a A$17 million of charges relating to the improvement of the Core Bank's collective provisioning models and methodology, and the ongoing regular review of collective provision factors. These charges reflect the continued enhancement program undertaken on credit risk modeling.

Lending Growth. Banking loans, advances and other receivables, including securitized assets, increased 9.1% from A$39.6 billion as at June 30, 2011 to A$43.2 billion as at June 30, 2012.

	As at June 30, 2012	As at June 30, 2011	Percentage Change
	(A$ millions)		*(%)*
Housing loans	27,639	27,014	2.3
Securitized housing loans and covered bonds	6,316	3,980	58.7
Total housing loans	**33,955**	**30,994**	9.6
Consumer loans	482	558	(13.6)
Total retail loans	**34,437**	**31,552**	9.1
Commercial/SMEs	5,063	4,555	11.2
Agribusiness	3,856	3,504	10.0
Total business loans[1]	**8,919**	**8,059**	10.7
Total lending	**43,356**	**39,611**	9.4
Other receivables[2]	-	142	(100.0)
Gross banking loans, advances and other receivables	**43,356**	**39,753**	9.1
Provision for impairment	(129)	(120)	7.5
Loans, advances and other receivables[2]	**43,227**	**39,633**	9.1
Credit risk-weighted assets	**22,606**	**21,136**	7.0
Geographical breakdown – gross banking loans, advances and other receivables			
Queensland	26,687	25,381	5.1
Outside of Queensland	16,669	14,230	17.1
New South Wales	9,044	7,556	19.7
Victoria	3,780	3,680	2.7
Western Australia	2,623	2,164	21.2
South Australia and other	1,222	972	25.7
Total lending	**43,356**	**39,611**	9.4

(1) During the Fiscal Year ended June 30, 2011, business loans balances were adjusted to reflect interest not brought to account, which was previously reported under "Other receivables". This restatement reduced Business loans balances by A$23 million for the Fiscal Year ended June 30, 2012.

(2) Other receivables are primarily collateral deposits provided to derivative counterparties.

Retail loans increased 9.1% from A$31.6 billion as at June 30, 2011 to A$34.4 billion as at June 30, 2012. Housing loans grew 9.6% to A$34 billion as the Core Bank continued to strengthen its Queensland presence and expand its presence in other states. The overall home lending environment continued to increase during the Fiscal Year ended June 30, 2012 as lower interest rates increased housing demand. Consumer loans decreased 13.6% during the Fiscal Year ended June 30, 2012 to A$482 million, primarily due to consumer deleveraging in the market.

Business loans increased 10.7% from A$8.1 billion as at June 30, 2011 to A$8.9 billion as at June 30, 2012. The commercial/SME portfolio grew 11.2% from A$4.6 billion as at June 30, 2011 to A$5.1 billion as at June 30, 2012, despite a challenging market characterized by strong competition for refinance lending. The agribusiness loan portfolio increased 10.0% from A$3.5 billion as at June 30, 2011 to A$3.9 billion as at June 30, 2012, as the Bank regained market share that was lost during the turbulent global financial crisis period, both nationally and in Queensland. The appointment of a "National Head of Agribusiness" during the year and sponsorship of a number of agribusiness events including "Year of the Farmer" and "Australian Beef Week" confirmed the Bank's commitment to rural Australia.

Net Interest Income. Net interest income increased 7.0% from A$837 million for the Fiscal Year ended June 30, 2011 to A$896 million for the Fiscal Year ended June 30, 2012, largely due to selective pricing initiatives targeting lower loan to value lending customers. The mix of lending between the retail and business portfolios remained relatively stable.

	Fiscal Year ended June 30,		Percentage Change
	2012	2011	
	(A$ millions)		*(%)*
Net interest income			
Lending Assets	2,877	2,802	2.7
Other Assets[1]	337	330	2.1
Interest expenses for deposits and funding	(2,318)	(2,295)	1.0
Total net interest income	**896**	**837**	7.0

(1) Includes liquid asset portfolio (as defined below). See "— Liquidity and Capital Resources — Sources of Liquidity."

Net interest margin was stable due to asset repricing, management of the Core Bank's funding mix and the timing of new loan issuance. The net interest margin for interest-earning assets and lending assets each increased one basis point for the Fiscal Year ended June 30, 2012. The net interest margin for interest-earning assets increased from 1.90% for the Fiscal Year ended June 30, 2012 to 1.91% for the Fiscal Year ended June 30, 2011 and the net interest margin for lending assets increased from 2.18% for the Fiscal Year ended June 30, 2012 to 2.19% for the Fiscal Year ended June 30, 2011. Asset repricing actions, taken in line with the rest of the Australian banking industry, kept the net interest margins stable despite lower retail funding margins due to heightened competition in the term deposit markets. Net interest margins also benefitted from the timing difference between funding and loan repricing.

	Fiscal Year ended June 30,	
	2012	2011
Net interest margin[1]		
Interest-earning assets	1.91%	1.90%
Lending Assets	2.19%	2.18%

(1) Based on average statement of financial position.

Gross banking loans, advances and other receivables, including securitized assets, increased 9.1% from A$39.8 billion for the Fiscal Year ended June 30, 2011 to A$43.4 billion for the Fiscal Year ended June 30, 2012 for the reasons discussed under "— Lending Growth." The table below illustrates the Core Bank's average statement of financial position and annualized average interest rate, as broken down by asset type.

	Fiscal Year ended June 30, 2012			Fiscal Year ended June 30, 2011		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(A$ millions)		*(%)*	*(A$ millions)*		*(%)*
Assets						
Interest earning assets						
Trading and investment securities	6,135	337	5.49	5,674	330	5.82
Gross loans, advances and other receivables	40,835	2,877	7.05	38,391	2,802	7.30
Other interest earning assets	-	-	-	-	-	-
Total interest earning assets	**46,970**	**3,214**	**6.84**	**44,065**	**3,132**	**7.11**
Non-interest earning assets						
Other assets	785			747		
Total non-interest earning assets	**785**			**747**		
Total assets	**47,755**			**44,812**		
Liabilities						
Interest-bearing liabilities						
Retail deposits	28,418	1,427	5.02	27,121	1,417	5.22
Wholesale liabilities	15,201	832	5.47	13,929	818	5.87
Debt capital	1,075	59	5.49	1,073	60	5.59
Total interest-bearing liabilities	**44,694**	**2,318**	**5.19**	**42,123**	**2,295**	**5.45**
Non-interest-bearing liabilities						
Other liabilities	941			955		
Total non-interest-bearing liabilities	**941**			**955**		
Total liabilities	**45,635**			**43,078**		
Average shareholders equity	**2,120**			**1,734**		
Analysis of interest margin and spread						
Interest earning assets	46,970	3,214	6.84	44,065	3,132	7.11
Interest-bearing liabilities	44,694	2,318	5.19	42,123	2,295	5.45
Net interest spread			**1.65**			**1.66**
Interest-earning assets net interest margin	**46,970**	**896**	**1.91**	**44,065**	**837**	**1.90**
Lending assets net interest margin	**40,835**	**896**	**2.19**	**38,391**	**837**	**2.18**

Other operating income. Other operating income increased 3.0% from A$101 million for the Fiscal Year ended June 30, 2011 to A$104 million for the Fiscal Year ended June 30, 2012, primarily due to positive mark-to-market movements of A$15 million.

Net mark-to-market gains on financial instruments increased 50% from A$10 million for the Fiscal Year ended June 30, 2011 to A$15 million for the Fiscal Year ended June 30, 2012. The mark-to-market result included non-recurring income relating to realized gains on the sale of liquid assets of A$6 million, unrealized gains on derivative instruments that will unwind in future periods and higher economic break fees as a result of customers breaking fixed rate loan arrangements as interest rates have fallen.

Net banking fee income decreased 3.4% from A$87 million for the Fiscal Year ended June 30, 2011 to A$84 million for the Fiscal Year ended June 30, 2012, primarily due to customers that continued to switch to lower fee products.

	Fiscal Year ended June 30,		Percentage Change
	2012	2011	
	(A$ millions)		*(%)*
Other operating income			
Net banking fee income	84	87	(3.4)
Mark-to-market on financial instruments	15	10	50.0
Other income	5	4	25.0
Other operating income	**104**	**101**	3.0

Operating Expenses. Operating expenses increased 7.3% from A$492 million for the Fiscal Year ended June 30, 2011 to A$528 million for the Fiscal Year ended June 30, 2012, primarily due to increased expenses to support higher sales volumes, expansion of the Core Bank footprint, and expenses associated with the Banking Platform Project and the commencement of the Basel II advanced accreditation program. The Fiscal Year ended June 30, 2012 also included the full effect of expenses related to 21 new branches and district banking centers that opened during the Fiscal Year ended June 30, 2011. The Core Bank also invested in developing product, distribution and sales force capability associated with equipment finance portfolios. These investments increased the Core Bank's cost-to-income ratio to 52.8% for the fiscal year. The underlying cost to income ratio (excluding the significant impact of the Bank's two important projects, namely the Banking Platform Project and the Basel II accreditation) trended downward.

Loan Impairment. Impairment losses decreased 19.6% from A$51 million for the Fiscal Year ended June 30, 2011 to A$41 million for the Fiscal Year ended June 30, 2012, largely due to a A$25 million write back of flood provisions, which was put in place during the flood events of the 2010/2011 summer, offset by a A$17 million increase in collective provisioning due to methodology and modeling enhancements. This charge represented 18 basis points of the credit risk-weighted assets for the full year.

The Core Bank also took a A$1 million charge relating to the weather events earlier in the 2012 calendar year. The full Fiscal Year result also included A$17 million of charges relating to the improvement of the Core Bank's collective provisioning models and methodology, and the ongoing regular review of collective provision factors. These charges reflect the continued enhancement program undertaken on credit risk modeling. Excluding the foregoing impacts, underlying impairment losses represented 21 basis points of the credit risk-weighted assets for the full Fiscal Year.

	As at June 30, 2012	2011	Percentage Change
	(A$ millions)		*(%)*
Gross balances of impaired loans			
with specific provisions set aside	192	136	41.2
without specific provisions set aside	49	10	390.0
Gross impaired assets	241	146	65.1
Specific provision for impairment	(46)	(39)	17.9
Net impaired assets	**195**	**107**	82.2
Size of gross impaired assets			
Less than one million	21	22	(4.5)
Greater than one million but less than ten million	117	87	34.5
Greater than ten million	103	37	178.4
Gross impaired assets	**241**	**146**	65.1
Loans 90 days past due not shown as impaired assets			
Impaired assets do not include loans accruing interest which are in arrears 90 days or more where the loans are well secured. Interest revenue continues to be recognized in the contribution to profit. The value of past due loans equals	293	386	(24.1)
Gross non-performing loans	**534**	**532**	0.4
Gross impaired assets as a percentage of gross loans, advances and other receivables[(1)]	0.55%	0.37%	
Gross non-performing loans as a percentage of gross loans, advances and other receivables[(2)]	1.23%	1.34%	

	Fiscal Year ended June 30, 2012	2011	Percentage Change
	(A$ millions)		*(%)*
Analysis of movements in gross impaired assets			
Balance at the beginning of the year	**146**	**150**	(2.7)
Recognition of new impaired assets	168	102	64.7
Increases in previously recognized impaired assets	2	8	(75.0)
Impaired assets written off/sold during the year	(19)	(12)	58.3
Impaired assets which have been reclassified as performing assets or repaid	(56)	(102)	(45.1)
Balance at the year end	**241**	**146**	65.1

(1) Calculated as (gross impaired assets) / (gross banking loans, advances and other receivables) for the end of the period.

(2) Calculated as (gross non-performing loans) / (gross banking loans, advances and other receivables) for the end of the period.

The increased loan impairment expense (excluding the release of provisions related to the Queensland floods) reflected the increase in total non-performing loans from A$532 million as at June 30, 2011 to A$534 million as at June 30, 2012, which represented 1.23% of gross loans, advances and other receivables compared to 1.34% as at June 30, 2011. Gross impaired assets increased 65.1% from A$146 million as at June 30, 2011 to A$241 million as at June 30, 2012, representing 0.56% of gross loans, advances and other receivables, respectively, which is an increase from 0.37% as at June 30, 2011. The amount of past due loans decreased 24% from A$386 million for the Fiscal Year ended June 20, 2011 to A$293 million for the Fiscal Year ended June 20, 2012, largely due to more temperate weather conditions since January 2011. A breakdown of impaired assets and specific provisions as at June 30, 2012 and 2011 are as follows:

	Fiscal Year ended June 30, 2012	Fiscal Year ended June 30, 2011	Percentage Change
	(A$ millions)		*(%)*
Collective provision			
Balance at the beginning of the period	81	65	24.6
(Credit)/charge against contribution to profit	2	16	(87.5)
Balance at end of the period	**83**	**81**	2.5
Specific provision			
Balance at the beginning of the period	39	37	5.4
Charge against contribution to profit	32	32	-
Write off of impaired assets	(16)	(19)	(15.8)
Unwind of interest	(9)	(11)	(18.2)
Balance at end of the period	**46**	**39**	17.9
Total provision for impairment – Banking activities	**129**	**120**	7.5
General reserve for credit loss[(1)]			
Balance at the beginning of the period	74	84	(11.9)
Transfer from retained earnings	28	(10)	n/a
Balance at end of the period	**102**	**74**	37.8
Pre-tax equivalent coverage	**146**	**106**	37.7
Total provision for impairment and general reserve for credit loss – Banking activities	**275**	**226**	21.7
Provision for impairment expressed as a percentage of gross impaired assets are as follows:	%	%	
Collective provision	34.4	55.5	
Specific provision	19.1	26.7	
Total provision	53.5	82.2	
General reserve for credit loss	60.6	72.6	
Total provision and general reserve for credit loss	**114.1**	**154.8**	

(1) The general reserve for credit losses comprises transfers from retained profits required where the Bank's specific and collective provisions for impairment are insufficient relative to APRA's provisioning requirements. While this disclosure is additional to the requirements of AASBs and IFRS, common practice in the Australian reporting environment is to disclose the general reserve for credit losses and associated ratios as presented in the above table.

	As at June 30, 2012[1] (A$ millions)			As at June 30, 2011[1] (A$ millions)		
	Gross Loans	**Impaired Assets**	**Specific Provisions**	**Gross Loans**	**Impaired Assets**	**Specific Provisions**
Agribusiness	3,644	202	36	3,387	216	46
Construction and development	2,345	1,264	286	3,123	1,421	251
Financial services	2,491	-	-	3,155	-	-
Hospitality	1,093	117	4	1,143	49	1
Manufacturing	453	14	-	568	15	4
Professional services	286	4	1	363	5	1
Property investment	3,129	369	53	4,003	538	60
Real estate mortgage	31,544	26	6	29,332	21	3
Personal	393	-	-	354	-	-
Government and public authorities	1	-	-	3	-	-
Other commercial and industrial	2,084	94	6	2,350	116	21
Total	**47,463**	**2,090**	**392**	**47,781**	**2,381**	**387**

(1) The table as at June 30, 2012 and June 30, 2011 has been prepared in accordance with APS330 as in effect as of June 30, 2012 and June 30, 2011.

Non-Core Bank

The following table presents the profit contribution of the Non-Core Bank for the Fiscal Years ended June 30, 2012 and 2011:

	Fiscal Year ended June 30, 2012	2011	Percentage Change
	(A$ millions)		(%)
Net interest income	**32**	**73**	(56.2)
Other operating income			
Net banking fee income	12	31	(61.3)
Other income[1]	24	(4)	n/a
Other operating income	**36**	**27**	33.3
Total income	**68**	**100**	(32.0)
Operating expenses	**(69)**	**(76)**	(9.2)
Profit before impairment losses on loans and advances	**(1)**	**24**	n/a
Loss on sale on loans and advances	(27)	-	n/a
Impairment losses on loans and advances	(364)	(274)	32.8
Profit before tax	**(392)**	**(250)**	56.8

(1) The figure for the Fiscal Year ended June 30, 2012 has been restated on the same basis as for the Fiscal Year ended June 30, 2013 to reflect an impairment expense of A$27 million for the Fiscal Year ended June 30, 2012. The resulting impact was a corresponding adjustment in other income from A$(3) million to A$24 million for the Fiscal Year ended June 30, 2012. See "Summary — Recent

Developments — Reduction of the Non-Core Portfolio" for more information about the Bank's disposal of the Non-Core Portfolio.

Overview. Highlights for the Non-Core Bank's Fiscal Year ended June 30, 2012 included:

- The Non-Core Portfolio's outstanding balances decreased from A$7.3 billion at June 30, 2011 to A$4.5 billion in assets at June 30, 2012 as the portfolio reached advanced stages of run off. This means the portfolio as at June 30, 2012 was approximately 25% of its original size as at June 30, 2009. Exposures with balances of greater than A$50 million have reduced from 121 as at June, 2009 to 34 as at June 30, 2012.

- Net interest income decreased 56.2% from A$73 million at June 30, 2011 to A$32 million at June 30, 2012 and other operating income increased 33.3% from A$27 million for the Fiscal Year ended June 30, 2011 to A$36 million for the Fiscal Year ended June 30, 2012 as the amount of assets in the Non-Core Portfolio decreased due to the portfolio and individual asset sales during the period.

- Operating expenses decreased 9.2% from A$76 million at June 30, 2011 to A$69 million for the Fiscal Year ended June 30, 2012, as the Bank continued reducing management and servicing costs associated with the management of the portfolio. This was partly offset by an increase in restructuring expenses relating to cost saving initiatives.

- The Non-Core Portfolio decreased 38.9% from A$7.3 billion in assets at June 30, 2011 to A$4.5 billion in assets at June 30, 2012, driven largely by asset sales and the write-down, or write-off, of underperforming impaired exposures.

- Gross non-performing loans reduced 20.5% from A$2.4 billion as at June 30, 2011 to A$1.9 billion as at June 30, 2012. Gross non-performing loans represented 29.8% of gross loans and advances as at June 30, 2012.

Lending Decline. The amount of loans, advances and other receivables decreased 54.8% from A$9.1 billion as at June 30, 2011 to A$4.1 billion as at June 30, 2012.

	As at June 30, 2012	As at June 30, 2011	Percentage Change
	(A$ millions)		*(%)*
Corporate	1,082	1,600	(32.4)
Development finance	1,473	2,132	(30.9)
Property Investment	1,868	3,176	(41.2)
Lease Finance	50	407	(87.7)
Non-Core Portfolio[1]	**4,473**	**7,315**	(38.9)
Other receivables	28	2,190	(98.7)
Gross banking loans, advances and other receivables	**4,501**	**9,505**	(52.6)
Provision for impairment	(408)	(444)	(8.1)
Loans, advances and other receivables[2]	**4,093**	**9,061**	(54.8)
Credit risk-weighted assets	**5,396**	**8,778**	(38.5)
Geographical breakdown – gross banking loans, advances and other receivables			
Queensland	2,024	3,413	(40.7)
New South Wales	1,654	2,603	(36.5)
Victoria	597	973	(38.6)
Western Australia	184	287	(35.9)
South Australia and other	14	39	(64.1)
Non-Core Portfolio	**4,473**	**7,315**	(38.9)

(1) During the Fiscal Year ended June 30, 2012, loans and advances in the Non-Core Portfolio have been adjusted to reflect interest not brought to account, which was previously reported under "Other receivables". This restatement reduced loans and advances in the Non-Core Portfolio by A$429 million as at June 30, 2011.

(2) During the Fiscal Year ended June 30, 2013, the Bank changed its reporting of collateral received on derivative asset positions and collateral posted on derivative liability positions to better reflect the nature of the assets and liabilities. This change has been reflected in the Bank's consolidated statement of financial position as at December 31, 2013 and June 30, 2013. For comparability purposes, the Bank's consolidated statement of financial position as at June 30, 2012 has been restated, resulting in a decrease in the Bank's loans, advances and other receivables of A$1.89 billion. See "Financial Information Presentation" and Note 2 to the Bank's 2013 annual financial statements for further information.

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- Non-Core Portfolio — The portfolio run off was A$2.8 billion for the Fiscal Year ended June 30, 2012, reducing the portfolio 38.9% to A$4.5 billion in assets at June 30, 2012 from A$7.3 billion in assets as at June 30, 2011.

  - Corporate lending — The corporate lending book continued to run off ahead of expectations, reducing by A$0.5 billion to A$1.1 billion at June 30, 2012 from A$1.6 billion at June 30, 2011. As at June 30, 2012, the portfolio included A$126 million of impaired assets.

  - Development finance — The balance of development finance loans continued to decline, reducing to A$1.5 billion at June 30, 2012 from A$2.1 billion at June 30

2011. As at June 30, 2012, the portfolio included A$1.2 billion of impaired assets across a combination of asset classes, including vacant land and a small number of assets that carried continuing development risk.

- Property investment — Property investment includes assets such as shopping centers, commercial offices and industrial warehouses, but excludes construction projects. During the Fiscal Year ended June 30, 2012, property investment loans reduced to A$1.9 billion as at June 30, 2012 from A$3.2 billion as at June 30, 2011. The portfolio includes A$0.5 billion of impaired assets.

- Lease finance — The lease finance receivables balance reduced to A$50 million at June 30, 2012 from A$407 million at June 30, 2011, the result of the disposal of a sub-portfolio of loans amounting to A$133 million and the natural portfolio amortization.

Net Interest Income. Net interest income decreased 56.2% from A$73 million for the Fiscal Year ended June 30, 2011 to A$32 million for the Fiscal Year ended June 30, 2012 as the amount of assets in the portfolio decreased due to the portfolio and individual asset sales during the period. The impaired and liquid portfolios suppressed the Non-Core Bank's net interest income by delivering low to negative returns after funding costs were taken into account. The reduction of net interest income was also impacted by lower recoveries of interest previously not brought to account.

	Fiscal Year ended June 30,		**Percentage Change**
	2012	**2011**	
	(A$ millions)		*(%)*
Net interest income			
Lending Assets	470	804	(41.5)
Other Assets	315	419	(24.8)
Interest expenses for deposits and funding	(753)	(1,150)	(33.5)
Total net interest income	**32**	**73**	(56.2)

	Fiscal Year ended June 30,	
	2012	**2011**
Net interest margin[1]		
Interest-earning assets	0.24%	0.38%
Lending Assets	0.50%	0.71%

(1) Based on average statement of financial position.

The amount of loans, advances and other receivables decreased 35% from A$9.1 billion for the Fiscal Year ended June 30, 2011 to A$5.9 billion for the Fiscal Year ended June 30, 2012 for the reasons discussed under "—Lending Growth." The table below illustrates the Non-Core Bank's average statement of financial position and annualized average interest rate, as broken down by asset type.

	Fiscal Year ended June 30, 2012			Fiscal Year ended June 30, 2011		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(A$ millions)		(%)	(A$ millions)		(%)
Assets						
Interest earning assets						
Financial assets	6,814	315	4.62	8,500	419	4.93
Gross loans, advances and other receivables	6,382	470	7.36	10,229	789	7.71
Other interest earning assets	-	-	-	278	15	5.40
Total interest earning assets	**13,196**	**785**	**5.95**	**19,007**	**1,223**	**6.43**
Non-interest earning assets						
Other assets (including loan provisions)	(1,009)			(1,096)		
Total non-interest earning assets	**(1,009)**			**(1,096)**		
Total assets	**12,187**			**17,911**		
Liabilities						
Interest-bearing liabilities						
Wholesale liabilities	10,870	734	6.75	15,912	1,114	7.00
Debt capital	**341**	**19**	**5.57**	**631**	**36**	**5.71**
Total interest-bearing liabilities	**11,211**	**753**	**6.72**	**16,543**	**1,150**	**6.95**
Non-interest-bearing liabilities						
Other liabilities	-			12		
Total non-interest-bearing liabilites	-			12		
Total liabilities	**11,211**			**16,555**		
Average shareholders equity	**976**			**1,356**		
Analysis of interest margin and spread						
Interest earning assets	13,196	785	5.95	19,007	1,223	6.43
Interest-bearing liabilities	11,211	753	6.72	16,543	1,150	6.95
Net interest spread			**(0.77)**			**(0.52)**
Interest-earning assets net interest margin	**13,196**	**32**	**0.24**	**19,007**	**73**	**0.38**
Lending assets net interest margin	**6,382**	**32**	**0.50**	**10,229**	**73**	**0.71**

Other operating income. Other operating income increased 33.3% from A$27 million for the Fiscal Year ended June 30, 2011 to A$36 million for the Fiscal Year ended June 30, 2012. Other income increased from a loss of A$4 million for the Fiscal Year ended June 30, 2011 to a profit of A$24 million for the Fiscal Year ended June 30, 2012, driven by a A$34.5 million profit on the disposal of a joint venture interest in a data center in February 2012, which was partially offset by a loss on the early buy-back of Australian government-guaranteed debt issued by the Bank. Net banking fee income fell 61.3% from A$31 million for the Fiscal Year ended June 30, 2011 to A$12

million for the Fiscal Year ended June 30, 2012 as the amount of assets in the Non-Core Portfolio decreased due to the portfolio and individual asset sales during the period.

	Fiscal Year ended June 30,		Percentage Change
	2012	**2011**	
	(A$ millions)		*(%)*
Other operating income			
Net banking fee income	12	31	(61.3)
Other income	24	(4)	n/a
Other operating income	**36**	**27**	33.3

Operating Expenses. Operating expenses decreased 9.2% from A$76 million for the Fiscal Year ended June 30, 2011 to A$69 million for the Fiscal Year ended June 30, 2012, as the Non-Core Bank continued to reduce direct management and servicing costs associated with the management of the portfolio. This was partly offset by an increase in restructuring expenses relating to cost saving initiatives.

Loan Impairment. Impairment expenses increased 32.8% from A$274 million for the Fiscal Year ended June 30, 2011 to A$364 million for the Fiscal Year ended June 30, 2012. This charge represents 675 basis points of the credit risk-weighted assets for the full Fiscal Year. The higher impairment loss charge reflected sector weakness in regional and suburban retail shopping centers and for land development projects. The Non-Core Bank provisioned and wrote down underperforming exposures in these businesses where recovery was deemed highly unlikely. The markets in which the Non-Core Bank had exposures remained volatile and consequently the work-out periods on impaired exposures were extended further during the period. The longer work-out periods contributed over A$139 million during the Fiscal Year to the impairment charge as a result of AASBs and IFRS requirements.

The Non-Core Portfolio decreased 38.9% from A$7.3 billion in assets at June 30, 2011 to A$4.5 billion in assets at June 30, 2012, driven largely by asset sales and the write-down, or write-off, of underperforming impaired exposures. In particular, the Non-Core Bank completed two significant asset sales in the Fiscal Year ended June 30, 2012.

	As at June 30, 2012	As at June 30, 2011	Percentage Change
	(A$ millions)		*(%)*
Gross balances of impaired loans			
with specific provisions set aside	1,823	2,202	(17.2)
without specific provisions set aside	26	33	(21.2)
Gross impaired assets	1,849	2,235	(17.3)
Specific provision for impairment	(346)	(348)	(0.6)
Net impaired assets	**1,503**	**1,887**	(20.3)
Size of gross impaired assets			
Less than one million	4	8	(50.0)
Greater than one million but less than ten million	145	213	(31.9)
Greater than ten million	1,700	2,014	(15.6)
Gross impaired assets	**1,849**	**2,235**	(17.3)
Loans 90 days past due not shown as impaired assets			
Impaired assets do not include loans accruing interest which are in arrears 90 days or more where the loans are well secured. Interest revenue continues to be recognized in the contribution to profit. The value of past due loans equals	27	125	(78.4)
Gross non-performing loans	**1,876**	**2,360**	(20.5)
Gross impaired assets as a percentage of gross loans, advances and other receivables	29.4%	23.5%	
Gross non-performing loans as a percentage of gross loans, advances and other receivables	29.8%	24.8%	

	Fiscal Year ended June 30, 2012	Fiscal Year ended June 30, 2011	Percentage Change
	(A$ millions)		*(%)*
Analysis of movements in gross impaired assets			
Balance at the beginning of the year	2,235	1,972	13.3
Recognition of new impaired assets and increases in previously recognized impaired assets	310	916	(66.2)
Increases in previously recognized impaired assets	36	42	(14.3)
Impaired assets written off during the year	(267)	(204)	30.9
Impaired assets which have been restated as performing assets or repaid	(465)	(491)	(5.3)
Balance at the year end	**1,849**	**2,235**	(17.3)

The increased loan impairment expense reflected the 20.5% reduction in total non-performing loans from A$2.4 billion as at June 30, 2011 to A$1.9 billion as at June 30, 2012, which represented 29.4% of gross loans, advances and other receivables as at June 30, 2012 compared to 23.5% as at June 30, 2011. Gross impaired assets decreased 17.3% from A$2.2 billion as at June 30, 2011 to A$1.8 billion as at June 30, 2012, representing 29.8% of gross loans, advances and other receivables, which was an increase from 24.8% as at June 30, 2011. The amount of past due loans decreased

78.4% over the period from A$125 million at June 30, 2011 to A$27 million June 30, 2012. A breakdown of impaired assets and specific provisions as at June 30, 2012 and 2011 are as follows:

	Fiscal Year ended June 30, 2012	2011	Percentage Change
	(A$ millions)		*(%)*
Collective provision			
Balance at the beginning of the period	96	136	(29.4)
(Credit)/charge against contribution to profit	(34)	(40)	(15.0)
Balance at end of the period	**62**	**96**	(35.4)
Specific provision			
Balance at the beginning of the period	348	434	(19.8)
Charge against contribution to profit	374	297	25.9
Write-off of impaired assets	(239)	(233)	2.6
Unwinding of interests	(137)	(150)	(8.7)
Balance at end of the period	**346**	**348**	(0.6)
Total provision for impairment – Banking activities	408	444	(8.1)
Equity reserve for credit loss			
Balance at the beginning of the period	83	142	(41.5)
Transfer from retained earnings	(28)	(59)	(52.5)
Balance at end of the period	**45**	**83**	(45.8)
Pre-tax equivalent coverage	**64**	**118**	(45.8)
Total provision for impairment and general reserve for credit loss – Banking activities	**472**	**562**	(16.0)
Provision for impairment expressed as a percentage of gross impaired assets are as follows:	%	%	
Collective provision	3.4	4.3	
Specific provision	18.7	15.6	
Total provision	22.1	19.9	
Equity reserve for credit loss	3.5	5.3	
Total provision and general reserve for credit loss	**25.5**	**25.1**	

Liquidity and Capital Resources

Liquidity

Liquidity risk is the risk that the Bank is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on-demand or at their contractual maturity dates, the repayment of borrowings and loan capital as they mature, the payment of operating expenses and taxation and the ability to fund new and existing loan and contractual commitments.

The Bank's liquidity risk management framework and policies are set by its Board of Directors to ensure that the Bank has sufficient funds available to meet all known and potential commitments. Under authority of the Board of Directors, the Board Risk Committee has responsibility for oversight of liquidity risk. The Board Risk Committee approves all liquidity policies

and reviews relevant risk limits. Executive management of liquidity risk is delegated to the Asset and Liability Committee who review risk measures and limits, provide guidance, and endorse and monitor funding and liquidity strategy. The primary objective of the liquidity risk management framework and policies are to ensure that the Bank has sufficient funds available to meet all of the Bank's known and potential commitments on a normal, going concern basis and in a crisis situation. Liquidity risk is managed using a framework that includes going concern and crisis scenario analysis, minimum high quality liquid asset ratios, minimum liquid asset ratios, liquidity concentration limits and other supplementary management trigger limits.

Under current Australian Prudential Standard APS 210, each ADI:

- is responsible for the sound management of its liquidity risk and must have a robust framework to manage its liquidity risk accordingly;
- must at all times maintain sufficient liquidity to meet its obligations as they fall due and hold a minimum level of high-quality liquid assets (HQLA) to survive a severe liquidity stress;
- must ensure that its activities are funded with stable sources of funding on an ongoing basis; and
- must inform APRA as soon as possible of any concerns it has about its current or future liquidity, and its plans to address these concerns.

The Bank's funding risk is managed through the sourcing of retail deposits and long-term funding to provide the majority of asset-lending funds. Funding capacity is monitored and diversity in the Bank's funding portfolio is managed with a consideration for product, tenor, geography and customer concentrations.

Sources of Liquidity

The Bank's principal sources of liquidity are:

- Retail funding, comprising retail deposits (A$32.3 billion as at December 31, 2013); and
- Wholesale funding, comprising:
  - US$15 billion Euro Medium-Term Notes Program and Euro Commercial Paper Program (A$1.8 billion of Euro medium-term notes and A$219 million of Euro commercial paper outstanding as at December 31, 2013);
  - Australian Medium-Term Notes and Transferable Certificate of Deposit Program with an unlimited principal amount (A$4.9 billion outstanding as at December 31, 2013);
  - US$5 billion Global Covered Bond Programme (A$2.2 billion outstanding as at December 31, 2013);
  - Securitization of residential mortgages through the APOLLO series trusts – (10 term trusts with A$4.5 billion outstanding as at December 31, 2013);
  - US$5 billion United States Commercial Paper Program (A$3.3 billion outstanding as at December 31, 2013); and

- US$15 billion U.S. Medium-Term Notes Program (none outstanding as at December 31, 2013).

Funding Profile

The table below illustrates the Bank's current retail and wholesale funding sources as at December 31, 2013 and June 30, 2013, 2012 and 2011.

(A$ millions)	As at December 31, 2013	As at June 30, 2013	2012	2011
Retail funding				
Australian retail deposits				
Transaction	7,194	6,335	5,764	5,372
Investment	5,630	4,639	3,826	3,706
Term	15,812	16,599	15,316	15,094
Core retail deposits	28,636	27,573	24,906	24,172
Retail treasury	3,673	3,981	4,985	3,604
Total retail funding	**32,309**	**31,554**	**29,891**	**27,776**
Wholesale funding				
Domestic funding sources				
Short-term wholesale funding	8,602	8,308	7,914	7,631
Long-term wholesale funding	2,650	2,866	3,683	4,818
Covered Bonds	2,196	2,196	1,598	0
Subordinated notes	840	840	170	170
Reset preference shares	0	30	31	102
Convertible preference Shares	0	0	731	728
Overseas funding sources[(1)]				
Short-term wholesale	3,686	3,999	3,716	3,840
Long-term wholesale	1,587	2,251	4,317	5,333
Covered Bonds	0	0	0	0
Subordinated notes	0	0	496	676
Total wholesale funding	**19,561**	**20,490**	**22,656**	**23,298**
Total funding (excluding securitization)	**51,870**	**52,044**	**52,547**	**51,074**
Securitized funding				
APS 120 qualifying[(2)]	3,711	3,733	2,936	2,451
APS 120 non-qualifying	556	1,069	903	1,183
Total securitized funding	**4,267**	**4,802**	**3,839**	**3,634**
Total funding (including securitization)	**56,137**	**56,846**	**56,386**	**54,708**
Total funding is represented on statement of financial position by:				
Deposits	32,309	31,554	29,891	27,776
Short-term borrowings	12,288	12,307	11,630	11,471
Securitization liabilities	4,267	4,802	3,839	3,634
Bonds, notes and long-term borrowings	6,433	7,313	9,598	10,151
Subordinated notes	840	840	666	846
Preference shares	0	30	762	830
Total	**56,137**	**56,846**	**56,386**	**54,708**

(1) Foreign currency borrowings are hedged back into Australian dollars.
(2) Qualifies for capital relief under APS 120.

The following table illustrates the Bank's maturity profile of its short-term and long-term indebtedness as at December 31, 2013:

(A$ millions)	Short-Term	Long-Term	As at December 31, 2013	As at June 30, 2013	2012	2011
0 to 3 months	10,185	834	11,019	10,648	11,957	11,716
3 to 6 months	1,963	1,582	3,545	3,322	2,441	1,688
6 to 12 months	140	1,989	2,129	2,695	1,846	1,766
1 to 3 years	-	4,591	4,591	5,882	7,180	10,205
3+ years	-	2,544	2,544	2,745	3,071	1,557
Total wholesale funding instruments	**12,288**	**11,540**	**23,828**	**25,292**	**26,495**	**26,932**

Short-term wholesale funding is mainly used to support the Bank's liquid asset portfolio, with the balance funding around 3% of the Bank's lending portfolio as at December 31, 2013. The Bank currently holds excess liquid assets over prudential requirements and believes it is well positioned to meet any regulator imposed industry requirements to liquidity reserves. The Bank has access to contingent liquidity in a crisis, including A$5.0 billion (cash equivalent) of mortgages that can be utilized if required.

The A+/A1 rating of the Bank enables it to access a range of wholesale funding products and markets, while its retail deposit base permits the Bank to be less reliant on the more expensive offshore term funding markets. This provides the Bank with funding flexibility and the potential capacity for future growth.

Retail Funding. The Bank has sought to broaden its deposit base nationally, particularly in New South Wales and Western Australia through increasing the number of branches in each of these states. This strategy increases consumer awareness of the Bank brand through its physical presence, which, when coupled with competitive pricing on term deposits and the superior customer service, is designed to result in increased deposits. This approach has delivered deposit growth to date, with overall deposit balances increasing by 7% between December 31, 2012 and December 31, 2013. These strategies are designed by the Bank to enable it to continue to match the funding of its lending activities predominantly with retail deposits and long-term wholesale funding. In order to better satisfy customer needs, the Bank is also trialing new branch formats, including kiosks and new flagship designs.

Retail deposits are managed to support the Bank's lending growth, liquidity and revenue objectives. The acquisition of high quality, stable retail deposits remains a key focus for the Bank. Retail deposits increased 7.2% from December 31, 2012 to A$32.3 billion as at December 31, 2013. The Bank has seen some traction from its expansion outside of Queensland, primarily in New South Wales and Western Australia, with 24% of overall deposit growth being delivered in these regions (as at December 31, 2013). The Bank continues to manage retail deposits in line with its lending growth, with the deposits-to-loans ratio of 66% at the upper end of the Bank's target range (as at December 31, 2013).

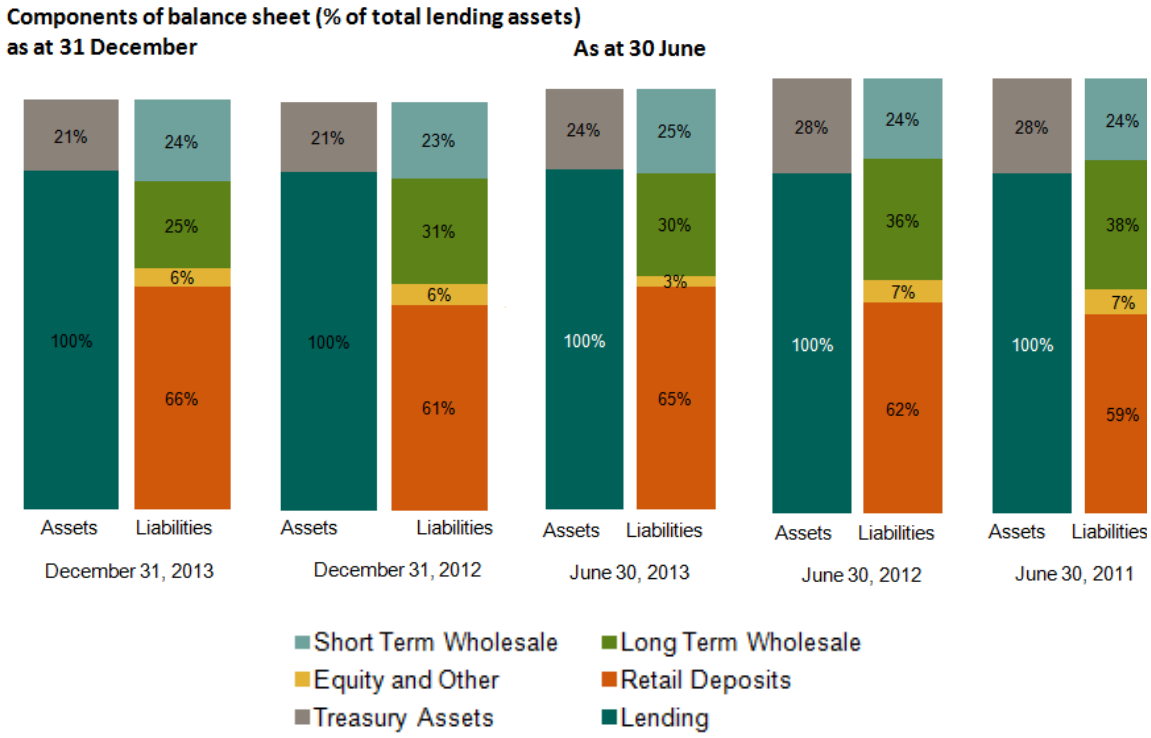
The Bank's "at call" deposit portfolio grew 21.0% from A$10.6 billion at December 31, 2012 to A$12.8 billion at December 31, 2013. As a result of the strong growth in at call deposits, demand for term deposits eased in the Half Year ended December 31, 2013. This portfolio continues to provide a relatively steady source of funding as the Bank has a well-established term deposit business with strong retention among its existing customers.

Wholesale Funding. During the Fiscal Year ended June 30, 2012, the Bank issued A$650 million of 3-year senior unsecured medium term notes and A$1.25 billion of RMBS with a weighted average life of 4 years. The Bank also established a covered bond program and an inaugural issue of A$1.6 billion was completed in May 2012.

During the Fiscal Year ended June 30, 2013, the Bank issued A$750 million of 3-year senior unsecured medium term notes and A$2.15 billion of RMBS with a weighted average life of 4 years. The Bank also raised A$600 million of "AAA" rated covered bonds in November 2012.

The Bank operates what it believes to be an appropriate wholesale funding instrument duration profile given its strong retail deposits-to-loans ratio. Securitization represents a large proportion of wholesale funding with a maturity of greater than 12 months. While this funding amortizes over time, its rate of duration decline is lower than other term funding instruments. This reduces the profile of future funding maturity towers and is important in reducing refinancing risk.

Bank Funding Composition. The following table outlines the Bank's funding composition as at December 31, 2013 and 2012 and June 30, 2013, 2012 and 2011.



Credit Ratings

As of the date of this Report, credit ratings for the Bank's short-term and long-term senior unsecured debt were as follows:

	Short-term debt	Long-term debt	Outlook
Standard & Poor's	A1	A+	Stable
Moody's Investors Service, Inc.	P1	A1	Stable
Fitch, Inc	F1	A+	Stable

Note: Ratings are not a recommendation to purchase, hold or sell securities, and may be changed, suspended or withdrawn at any time.

Cash Flow Analysis

Set forth below is a summary of the Bank's cash flow for the periods indicated. See the consolidated statements of cash flows in the 2014 interim financial statements, the 2013 interim financial statements, the 2013 annual financial statements, the 2012 annual financial statements and the 2011 annual financial statements for more detailed cash flow information.

	Half Year ended December 31,		Fiscal Year ended June 30,		
(A$ millions)	**2013**	**2012**	**2013**	**2012**	**2011**
Cash flows from operating activities	936	(528)	2,713	1,346	10,968
Cash flows from investing activities	(5)	1,161	(337)	(50)	(2,407)
Cash flows from financing activities	(1,669)	(1,836)	(2,753)	(1,578)	(8,396)
Net increase (decrease) in cash and cash equivalents	**(738)**	**(1,203)**	**(377)**	**(282)**	**540**

Cash Flows From Operating Activities

Comparison of the Half Year ended December 31, 2013 to the Half Year ended December 31, 2012

Cash from operating activities increased significantly from a cash outflow of A$528 million in the Half Year ended December 31, 2012 to a cash inflow of A$936 million in the Half Year ended December 31, 2013. This was largely due to an increase of A$589 million in cash inflow from trading securities and a decrease of A$574 million in cash outflow related to loans, advances and other receivables advanced to borrowers.

Comparison of the Fiscal Year ended June 30, 2013 to the Fiscal Year ended June 30, 2012

Cash from operating activities increased significantly from a cash inflow of A$1,346 million in the Fiscal Year ended June 30, 2012 to a cash inflow of A$2,713 million in the Fiscal Year ended June 30, 2013. This was largely due to an increase of A$1,123 million in cash inflow from trading securities and a decrease of A$621 million in cash outflow from interest paid, which were offset by a decrease of A$608 million in cash inflow from interest received.

Comparison of the Fiscal Year ended June 30, 2012 to the Fiscal Year ended June 30, 2011

Cash from operating activities decreased significantly from a cash inflow of A$10,968 million in the Fiscal Year ended June 30, 2011 to a cash inflow of A$1,346 million in the Fiscal Year ended June 30, 2012. This was largely due to a decrease of A$3,061 million in cash inflow from trading securities and a significant movement in cash flow related to loans, advances and other receivables from a cash inflow of A$1,943 million in the Fiscal Year ended June 30, 2011 to a cash outflow of A$1,165 million in the Fiscal Year ended June 30, 2012. In addition there was a decrease of A$2,907 million in cash inflow in deposits, short-term borrowings, payables and other liabilities.

Cash Flows From Investing Activities

Comparison of the Half Year ended December 31, 2013 to the Half Year ended December 31, 2012

Cash used in investing activities increased significantly from a cash inflow of A$1,161 million in the Half Year ended December 31, 2012 to a cash outflow of A$5 million in the Half Year ended December 31, 2013, largely due to a A$5 million purchase of investment securities.

Comparison of the Fiscal Year ended June 30, 2013 to the Fiscal Year ended June 30, 2012

Cash outflow from investing activities increased significantly from A$50 million in the Fiscal Year ended June 30, 2012 to A$337 million in the Fiscal Year ended June 30, 2013. This was largely due to an increase of A$180 million in cash outflow for the purchase of investment securities and a decrease of A$107 million in cash inflow from the disposal of property, plant and equipment.

Comparison of the Fiscal Year ended June 30, 2012 to the Fiscal Year ended June 30, 2011

Cash outflow from investing activities decreased significantly from A$2,407 million in the Fiscal Year ended June 30, 2011 to A$50 million in the Fiscal Year ended June 30, 2012. This was largely due to the decrease of A$2,343 million in cash outflow from the purchase of investment securities.

Cash Flows From Financing Activities

Comparison of the Half Year ended December 31, 2013 to the Half Year ended December 31, 2012

Cash outflow from financing activities decreased 9.1% from A$1,836 million in the Half Year ended December 31, 2012 to A$1,669 million in the Half Year ended December 31, 2013. This was largely due to a decrease of A$212 million in cash outflow in debt issuances and securitization liabilities.

Comparison of the Fiscal Year ended June 30, 2013 to the Fiscal Year ended June 30, 2012

Cash outflow from financing activities increased 74.5% from A$1,578 million in the Fiscal Year ended June 30, 2012 to A$2,753 million in the Fiscal Year ended June 30, 2013. This was due to an increase in cash outflow of A$1,644 million in borrowings and an increase in cash outflow of A$663 million for preference share conversion, which were partially offset by an increase in cash inflow of A$670 million received from the issuance of subordinated notes to Suncorp Group Limited.

Comparison of the Fiscal Year ended June 30, 2012 to the Fiscal Year ended June 30, 2011

Cash outflow from financing activities decreased 81.2% from A$8,396 million in the Fiscal Year ended June 30, 2011 to A$1,578 million in the Fiscal Year ended June 30, 2012, largely due to a decrease in cash outflow from borrowings of A$5,851 million.

Contractual Obligations

Each fiscal year the Bank prepares an analysis of its contractual commitments. See Note 30 to the 2013 annual financial statements for a quantitative and qualitative discussion of these risks. The Bank's most significant contractual obligation is the commitments to provide loans and advances to customers, which was A$6.8 billion as at June 30, 2013.

Off-Balance Sheet Transactions

In the ordinary course of business and primarily to facilitate client transactions, the Bank enters into off-balance sheet arrangements with unconsolidated entities of the Group. Unlike US GAAP where a qualifying special purpose entity is not consolidated by the primary beneficiary, under AASBs and IFRS all such entities are consolidated where the Bank is exposed to the majority of the risks and rewards. In accordance with the Group's policies, exposure to any of these transactions is not carried at a level that would have a material effect on the financial condition of the Bank. The impact on the Bank's consolidated statement of comprehensive income from these off-balance sheet arrangements is not considered material by the Bank.

Derivative Financial Instruments

Derivatives are used by the Bank to manage interest rate and foreign exchange risk. The use of derivatives to mitigate market risk, interest rate risk and currency risk includes the use of exchange traded cash, bill and bond futures, interest rate swaps, forward rate agreements, OTC forward foreign exchange contracts and interest rate and foreign exchange options. Derivative restrictions are designed to either prevent gearing or to limit unrealized and potential losses. Counterparty risk procedures are in place for OTC-type derivatives. As at December 31, 2013, there was no significant counterparty exposure to any one single entity, other than normal clearing house exposures associated with dealings through recognized exchanges. For a further discussion of the Bank's hedging activities, see Note 32.5 to the annual consolidated financial statements for the Fiscal Year ended June 30, 2013.

Quantitative and Qualitative Disclosures about Market Risk

Each fiscal year the Bank prepares an analysis of market risk as it applied to the Bank and a quantitative analysis of the Bank's value at risk for interest rates and foreign exchange, individually and in the aggregate. See Note 32 to the 2013 annual financial statements, for a quantitative and qualitative discussion of these risks.

Capital Adequacy

As discussed under "Regulation and Supervision", the Bank must comply with separate regulatory capital adequacy prudential standards and guidelines from Suncorp Group Limited. The standards and guidelines are prescribed by, and are continually being refined by, APRA. Regulatory capital will differ from statutory accounting capital due to the inclusion of some liabilities such as preference shares and subordinated debt for the purposes of calculating regulatory capital, and the deduction of intangible assets such as goodwill and software assets from regulatory capital. See "Selected Financial Information—Regulatory Capital and Ratios" for details of the Bank's Tier 1 and Tier 2 capital as at December 31, 2013 and June 30, 2013, 2012 and 2011.

For a discussion of the Bank's capital adequacy requirements and how its ratios are calculated, see "Regulation and Supervision."

The APRA Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information (Pillar 3) details the market disclosure requirements for Australian domiciled banks. APS 330 requires qualitative and quantitative disclosure of risk management practices and capital adequacy. These disclosures are required to be published by the Bank within 40 business days of the reporting date and are posted on the Bank's U.S. Investors' Website.

The Bank's capital adequacy policy is set by its Board of Directors to ensure that the Bank satisfies both the capital adequacy prudential standards and guidelines set by APRA and the internal capital targets set by management. The Board Risk Committee has ultimate responsibility for the Bank's capital adequacy policies and delegates to the Asset and Liability Committee the role of

reviewing and monitoring ongoing capital levels and implementing the necessary funding actions to ensure the Bank has sufficient capital requirements to meet regulatory and internal requirements.

As part of the Bank's capital management, the Bank relies on investments of capital from the Group from time to time in order to meet particular capital targets, including a "Common Equity Tier 1" Ratio in excess of 8%. Since the NOHC Restructure, the Bank has sought to simplify its capital structure by redeeming its redeemable preference shares in exchange for common equity and internal subordinated notes offered to Suncorp Group Limited. During the Fiscal Year ended June 30, 2013, the Group purchased further ordinary shares of the Bank (A$263 million in June 2013) and acquired two series of subordinated notes from the Bank (A$450 million in December 2012 and A$670 million in June 2013).

For details of the Bank's Tier 1 and Tier 2 capital as at December 31, 2013 and June 30, 2013, 2012 and 2011, see "Selected Financial Information — Regulatory Capital and Ratios."

REGULATION AND SUPERVISION

Overview

The Bank is an authorized deposit-taking institution ("ADI") and provides banking services to the retail, corporate and commercial sectors in Australia. The principal regulators that supervise and regulate the Bank activities are APRA, ASIC, the RBA, the ACCC and AUSTRAC.

APRA is responsible for the prudential supervision of ADIs, such as the Bank, as well as insurance companies and other financial services entities such as mutual societies and superannuation companies and has powers to act in the interests of depositors if an ADI is in difficulty.

ASIC is responsible for the administration and enforcement of Australian law in relation to companies, financial service organizations and professionals who deal and advise in respect of investments, superannuation, insurance, deposit taking and credit. ASIC is also responsible for consumer protection, monitoring and promoting market integrity and licensing in relation to the Australian financial system, the provision of financial services and the payment system.

In exercising its powers, APRA works closely with the RBA. The RBA is Australia's central bank and an active participant in the financial markets. It also manages Australia's foreign reserves, issues Australian currency notes, services as a banker to the Australian Government and, through the Payment Systems Board, supervises the payments system.

The ACCC is Australia's competition regulator. Its key responsibilities are to ensure that corporations do not act in a way that may have the effect of eliminating or reducing competition, and to oversee product safety and liability issues, pricing practices and third-party access to facilities of national significance.

AUSTRAC is Australia's anti-money laundering and counter-terrorism financing regulator and specialist financial intelligence unit. It works collaboratively with Australian industries and businesses (including certain entities of the Group) in their compliance with anti-money laundering and counter-terrorism financing legislation. As Australia's financial intelligence unit, AUSTRAC contributes to investigative and law enforcement work to combat financial crime and prosecute criminals in Australia and overseas.

APRA

APRA's prudential supervision - General

APRA discharges its responsibilities by requiring ADIs subject to its supervision to conform to a set of prudential standards and to regularly provide APRA with reports that contain a broad range of information, including financial and statistical data relating to their financial position and information in respect of prudential and other matters. This information is generally not publicly available to investors. APRA's prudential standards and associated guidance notes cover areas including capital adequacy, funds management and securitization, covered bonds, liquidity, credit quality, large exposures and associations with related entities.

In carrying out its supervisory role, APRA supplements its analysis of statistical data collected from ADIs with selective "on site" visits and formal meetings with an ADI's senior management and auditors. The external auditors provide additional assurance to APRA that prudential standards set by APRA applicable to the ADI are being observed, statistical and financial data provided by ADIs to APRA are reliable, and that statutory and other banking requirements are being met. External auditors are also required to undertake targeted reviews of specific risk management areas as requested by APRA. In addition, each ADI's chief executive officer attests yearly to the adequacy and operating effectiveness of the ADI's risk management systems to control

exposures and limit risks to prudent levels. APRA may also exercise certain investigative powers if an ADI fails to provide information about its financial stability or becomes unable to meet its obligations.

APRA's prudential supervision - Capital Adequacy

APRA's approach to the assessment of an ADI's capital adequacy is based on the risk-based capital adequacy framework set out in the Basel Committee on Banking Supervisions' publications, "*International Convergence of Capital Measurement and Capital Standards a Revised Framework"* ("Basel II"), revised in June 2006 and *"A global regulatory framework for more resilient banks and banking systems"* ("Basel III"), released in December 2010 and revised in June 2011.

Consistent with Basel III, APRA's approach provides for a quantitative measure of an ADI's capital adequacy and focuses on matters including: (i) the credit risk associated with an ADI's on-balance sheet and off-balance sheet exposures; (ii) the operational risk associated with an ADI's banking activities; (iii) the market risk arising from an ADI's trading activities; (iv) the risk associated with securitization; and (v) the amount, form and quality of capital held by an ADI to act as a buffer against these and other exposures.

Under its Prudential Standard APS 111: Capital Adequacy: Measurement of Capital ("APS 111"), APRA requires that an ADI maintains a certain amount of regulatory capital. For capital adequacy purposes, an ADI's regulatory capital is assessed by APRA in two tiers: (1) Tier 1 Capital (going concern capital), which comprises of the sum of an ADI's Common Equity Tier 1 Capital and Additional Tier 1 Capital; and (2) Tier 2 Capital (gone concern capital), in each case, less any prescribed regulatory adjustments (where applicable). Common Equity Tier 1 Capital comprises of the highest quality components of capital that: (i) provide a permanent and unrestricted commitment of funds; (ii) are freely available to absorb losses; (iii) do not impose any unavoidable servicing charge against earnings; and (iv) rank behind the claims of depositors and other creditors in the event of winding-up of the ADI. Additional Tier 1 Capital comprises of the highest quality components of capital that meet requirements (i), (ii) and (iv) above, but must also provide for fully discretionary capital distributions. Tier 2 Capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 Capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses.

An ADI's regulatory capital base (the numerator of the capital ratio) is defined as the sum of eligible Tier 1 Capital and Tier 2 Capital ("total capital"). ARPA requires all ADIs to, at all times, maintain the following minimum prudential capital ratios (as measured against total risk weighted assets): (i) Common Equity Tier 1 Capital ratio of 4.5%, (ii) a Tier 1 Capital ratio of 6.0%; and (iii) a Total Capital (being the sum of all Tier 1 Capital and Tier 2 Capital) ratio of 8.0%. APRA may also require an ADI to hold prudential capital above these levels if it so determines. As at March 10, 2014, the Bank is fully compliant with all prudential capital requirements that are applicable to it.

Pursuant to APS 110, APRA also requires ADIs to, from January 1, 2016, hold a capital conservation buffer above the prudential capital requirement for the Common Equity Tier 1 Capital. The capital conservation buffer is 2.5% of the ADI's total risk-weighted assets unless determined otherwise by APRA. APS 110 provides that the Common Equity Tier 1 plus the capital conservation determined by APRA will be no less than 7.0% of the ADI's total risk-weighted assets. It is currently not possible to predict with absolute certainty whether the Bank will meet this requirement and the Bank continues to monitor its prudential capital to ensure that it will be well-positioned to meet these upcoming requirements when they come into effect. As at December 31, 2013, the Bank's Common Equity Tier 1 capital ratio was 8.16%. This is currently above the levels required by APS110.

From January 1, 2016, APRA may, by notice in writing to all ADIs, require them to hold additional Common Equity Tier 1 Capital of between zero and 2.5% of total risk-weighted assets, as a countercyclical capital buffer. It is currently not possible to predict whether APRA will require ADIs

to hold a countercyclical capital buffer but any such decision of APRA to do so must be notified by APRA to all ADIs 12 months prior to coming into effect.

APRA has stipulated a capital adequacy framework that applies to the Bank as an ADI. The APRA Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information ("APS 330") details the market disclosure requirements for Australian domiciled ADIs. APS 330 requires qualitative and quantitative disclosure of risk management practices and capital adequacy. These disclosures are required to be published by the Bank within 40 business days of the reporting date and are posted on the Bank's U.S. Investors' Website. Measurement of capital adequacy is more fully described in Section 3 of the Bank's APS 330 disclosure document for the quarter ended December 31, 2013, which is posted on the Bank's U.S. Investors' Website. APRA has advised that it will monitor the overall Group and may increase the prudential requirements it applies to the Bank if the activities of the Group places financial strain on the Bank.

APRA's approach to capital frameworks

APRA's implementation of the Basel III capital framework began on January 1, 2013 with four prudential standards implementing the Basel III capital reforms in Australia coming into effect. A summary of the key requirements is set out in the section entitled "APRA's prudential supervision - Capital Adequacy" above. It is expected that other prudential and reporting standards incorporating other elements of the Basel III capital reforms will be released in 2014.

APRA's prudential supervision - Liquidity

Under APRA's Prudential Standard APS 210: Liquidity ("APS 210"), APRA requires ADIs to at all times maintain sufficient liquidity to meet its obligations as they fall due and hold a minimum level of high-quality liquidity assets to survive liquidity stress. APRA also requires ADIs to have a robust liquidity risk management framework to manage its liquidity risk. The ADI's liquidity risk management framework must include, at a minimum: a statement of the ADI's liquidity risk tolerance, a liquidity management strategy, policy statement and funding strategy which, in each case, must be approved by the ADI's Board of Directors. It must also include a system for identifying, measuring, monitoring and controlling its liquidity risk in accordance with its liquidity risk tolerance and a formal contingency plan for dealing with a liquidity crisis.

Basel III

In December 2010, the Basel Committee on Banking Supervisions' announced a revised global regulatory capital and liquidity risk management framework, known as Basel III. The regulatory capital framework includes higher capital requirements and better quality capital, requirements to ensure loss absorbency at the point of non-viability and better risk coverage, the introduction of a leverage ratio as a backstop to the risk-based requirement. The liquidity measures are to promote the buildup of capital that can be drawn down in periods of stress, and the introduction of a Liquidity Coverage Ratio ("LCR") requirement (to become effective from January 1, 2015), which aims to ensure that banks have sufficient high-quality liquid assets to survive an acute stress scenario lasting for one month and the Net Stable Funding Ratio ("NSFR"), as a separate liquidity metric (to be implemented from January 1, 2018).

APRA's approach to the Basel III liquidity framework

In December 2013, APRA issued its final standard and practice guides to implement the global liquidity standards issued by the Basel Committee in the text of the Basel III framework.

In line with the liquidity standards contained within the Basel III framework, APRA introduced the LCR as part of its liquidity framework. The LCR requires liquid assets to be held to

cover net cash outflows and provide an adequate buffer under a severe liquidity stress scenario lasting 30 calendar days and will come into effect as a requirement from 2015.

In its implementation of the LCR, ARPA adopted the Basel III rules text in full, with the exception of certain items where APRA has made use of the national discretion allowed or where APRA has departed from the rules text to reflect circumstances particular to Australia. Items under the first category include not expanding the definition of high-quality liquid assets, different treatment for the cash outflow rate for high run off less stable retail deposits, contingent funding obligations and the method of calculating collateral flows related to the valuation of derivatives. Items under the second category include the treatment of self-managed superannuation funds and recognition of head office liquidity to support Australian branches of foreign banks.

As a consequence of not choosing to expand the definition of high-quality liquid assets, the only assets that would qualify as high-quality liquid assets for the purposes of satisfying the LCR requirement are cash balances held with the RBA and Australian Government and semi-government securities. APRA has acknowledged that the supply of Australian Commonwealth Government and semi-government securities in Australia is relatively limited. To assist ADIs with meeting their LCR requirements, APRA and the RBA have agreed an approach to allow ADIs to establish a committed secured liquidity facility ("CLF") with the RBA to cover any shortfall of its holdings of high-quality liquid assets and the LCR requirement in return for a market based commitment fee of 0.15% and an interest rate that is in line with the current arrangements for RBA's overnight repurchase facility. Qualifying collateral for the facility will comprise of all assets eligible for repurchase transactions with the RBA under normal market operations and other assets the RBA deems appropriate (including certain related-party assets issued by bankruptcy remote vehicles like self-securitized residential mortgage backed securities).

On August 8, 2013, APRA released details on its process for determining the appropriate size of the CLF for each ADI (which includes the Bank). The main steps in the process are: (i) ADIs will be required to apply for inclusion of a CLF for calculation of the ADI's liquidity coverage ratio ("LCR") on an annual basis; (ii) ADIs will be required to demonstrate that they have taken "all reasonable steps" towards meeting their LCR requirements through their own balance sheet management, before relying on the CLF; (iii) ADIs must meet relevant qualitative and quantitative liquidity requirements, including having in place a statement of the relevant institution's Board's tolerance for liquidity risk, an appropriately robust liquidity transfer pricing mechanism, and appropriate remuneration arrangements for those executives responsible for the ADI's funding plan and liquidity management. The CLF will only be made available to address an ADI's Australian dollar liquidity needs and the size of the CLF for any particular ADI will be limited to a specified percentage of that ADI's Australian dollar net cash outflow target as agreed to by APRA, plus an allowance of an appropriately sized buffer. With the introduction of the CLF, the Bank currently expects that it will meet the requirements of the LCR.

In a letter to all ADIs subject to the LCF requirement released on January 30, 2014, APRA provided further details on the operation of the CLF. APRA has indicated that it will not generally specify a required CLF collateral mix but instead will employ the following two principles when assessing the suitability of an ADI's CLF collateral mix:(i) that the CLF collateral submitted by an ADI has an appropriate degree of diversification; and (ii) the need for liquid markets in debt securities be balanced against the dangers of exacerbating interconnectedness. In addition, APRA also indicated that it will request ADI's to submit formal CLF applications by May 30, 2014 in order to determine the size of an ADI's CLF that will apply for the 2015 calendar year and advised that it plans to agree the size of each ADI's CLF by September 30, 2014.

In addition to implementing the LCR, APRA announced that it plans to introduce the NSFR into its liquidity framework from January 1, 2018. The NSFR is a 12 month structural funding metric, requiring that 'available stable funding' is sufficient to cover 'required stable funding', where 'stable' funding has an actual or assumed maturity of greater than 12 months. In addition, APRA has also

announced its proposal to introduce a specific required sable funding factor for assets held by ADIs as collateral for their CLF. This will approximate the factor that would apply if adequate supplies of high-quality liquid assets were available in Australia. The Bank currently expects that it will meet the requirements of the NSFR. However, final details of the NSFR have not yet been released.

Counterparty credit risk

In September 2012, APRA released its final prudential standards on its implementation of the Basel III reforms to the capital framework for counterparty credit risk and other credit exposure which come into effect on January, 1 2013. Under its prudential standards, APRA extended its existing capital framework for counterparty credit risk in bilateral transactions to be the sum of the existing counterparty credit default component that applies under its existing prudential standards and a risk capital Credit Value Adjustment ("CVA") risk capital charge introduced as part of the Basel III reforms. The CVA risk capital charge is intended to cover the risk of mark-to-market losses on the expected counterparty credit risk arising from bilateral OTC derivatives. APRA also adopted Basel III reforms on capital charges for exposure to central counterparties arising from over the counter derivatives, exchange traded derivatives and securities financing transactions. These prudential standards are expected to require the Bank to hold more capital for its counterparty credit risk exposures and other credit exposures.

Anti-Money Laundering and Counter Terrorism Financing

The Anti-Money Laundering and Counter Terrorism Financing Act ("AML-CTF") of Australia places obligations on providers of financial services and gaming services, and on bullion dealers. The AML-CTF Act affects entities who offer specific services which may be exploited to launder money or finance terrorism, for example, those relating to electronic fund transfers, designated remittance arrangements and correspondent banking relationships. The AML-CTF Act also has broad extra territorial application to overseas entities of Australian companies.

A number of entities in the Group are considered to be "reporting entities" for the purposes of the AML-CTF Act and are required to undertake certain obligations, including enhanced customer due diligence, establishing an AML-CTF program to identify, mitigate and manage the risk of money laundering and terrorism financing, enhanced record-keeping and reporting on suspicious matters, transactions above a set threshold and international funds transfer instructions to the Australia.

Other Australian regulatory developments

APRA's supervision of conglomerate groups

In December, 2012 and May 2013, APRA released two consultation packages on its revised requirements for the supervision of conglomerate groups ("Level 3 groups"), which includes the Bank. APRA has indicated that its proposed Level 3 group framework is intended to meet the principles set out in the Joint Forum's Principles for the Supervision of Financial Conglomerates published in September 2012 and consists of four components: group governance, risk exposures, risk management and capital adequacy. The proposed overarching requirements of the framework are as follows: (i) a Level 3 group must have a robust governance framework that is applied appropriately throughout the group; (ii) the intra-group exposures and external aggregate exposures of a Level 3 group must be transparent and prudently managed; (iii) a Level 3 group must have an effective group-wide risk management framework in place; and (iv) a Level 3 group must have sufficient capital to support the risks of the entire group, including material risks that arise from non-APRA-regulated activities.

Over the course of first calendar quarter of 2014, APRA intends to publish the final Level 3 prudential standards and release for consultation a set of prudential practice guides and consequential amendments to other prudential standards that give effect to the Level 3 framework. The Level 3

prudential standards are expected to take effect from January 1, 2015. It is not possible, at this stage, to predict the final impact of the reforms that will be adopted by APRA and, in particular, their impact on the capital structure or businesses of the Bank.

Basel Committee requirements for loss absorbency at the point of non-viability

On January 13, 2011, the Basel Committee issued the minimum requirements to ensure loss absorbency at the point of non-viability. These requirements enhance the entry criteria of regulatory capital to ensure that all regulatory capital instruments issued by banks are capable of absorbing losses in the event that a bank is unable to support itself in the private market and are in addition to the criteria detailed in the text of the Basel III framework that were published in December 2010.

Under the requirements, all non-common Tier 1 and Tier 2 instruments issued by a bank on or after January 1, 2013 must have a provision which allows a relevant authority to require the debt to be written off or converted into common equity upon the earlier of such authority determining that (1) a write-off is necessary; and (2) rescue funds from the public sector (or equivalent) are required, for the bank to continue to be viable. Instruments issued prior to January 1, 2013 that do not meet these criteria but otherwise met all of the criteria for Additional Tier 1 or Tier 2 capital as set out in the text of the Basel III framework will be considered as an instrument that no longer qualifies as such and phased out from January 1, 2013.

APRA's implementation of these new minimum requirements were included in its revised capital which came into effect on January 1, 2013. All Tier 1 instruments currently issued by the Bank meet the requirements of the revised prudential standard requirements for loss absorbency at the point of non-viability. All Tier 2 instruments currently issued by the Bank meet the requirements of the revised prudential standard or are eligible for transitional relief that phases out from January 1, 2013. Transitional relief is available for qualifying instruments on a progressively reducing basis from January 1, 2013 until January 2, 2022.

Crisis management

On September 28, 2012, the Australian Government released a consultation paper titled "*Strengthening APRA's Crisis Management Powers*" seeking comments on a range of options to enhance Australia's financial sector, particularly prudential regulation. The options canvassed in the paper aim to strengthen APRA's crisis management powers in relation to non-operating holding companies, ADIs, superannuation entities and general and life insurers. Implementation of these options is intended to bring Australia's regulatory framework more closely into line with the new G20 endorsed international standard for crisis management arrangements published by the Financial Stability Board ("FSB") in its publication dated October 2011 "*Key Attributes of Effective Resolution Regimes for Financial Institutions*". If implemented, the key implications for the Bank are likely to be an increase in APRA's powers to intervene in the affairs of the Bank during periods of stress.

Central clearing of OTC derivatives

On December 6, 2012, the Australian Government passed legislation to introduce the framework required by the Australian Government to meet its G20 obligations on derivatives regulation. The legislation allows the Australian Government and its regulators to prescribe, when it determines that it becomes appropriate, one or more of the following as mandatory obligations: (1) the reporting of OTC derivatives to trade repositories, (2) the clearing of standardized OTC derivatives through central counterparties, and (3) the execution of standardized OTC derivatives on exchanges or electronic platforms. The legislation does not impose any of these obligations itself but rather introduces a framework under which they can be prescribed. In December 2012, the Australian Government stated that it will initially focus on the reporting of OTC derivatives, with ASIC releasing two consultation papers on trade repositories and derivative transaction reporting in March 2013. The

consultation paper on derivative transaction reporting proposes a mandatory phase-in period from December 31, 2013 (with a voluntary opt-in from July 1, 2013).

On July 7, 2013, ASIC, the RBA and APRA released a report on the Australian OTC derivatives market. The most important recommendation was that the Australian Government consider a central clearing mandate for interest rate derivatives denominated in U.S. dollars, Euros, Pounds Sterling or Yen, primarily on international consistency grounds as the largest Australian banks are already clearing these products because of requirements of other jurisdictions. As there is a relatively low level of activity in North American and European referenced credit derivatives, the regulators did not recommend mandating clearing for these products as at the time of that report.

On July 11, 2013, ASIC finalized its Derivative Transaction Rules (Reporting) (the "Reporting Rules") and the Derivative Trade Repository Rules (the "Trade Repository Rules", and, together with the Reporting Rules, the "Rules"). The Reporting Rules establish which entities are required to report, and what information is required to be reported to trade repositories. They specify when the reporting obligation commences for each class of reporting entities and the types of instrument which are reportable. The Trade Repository Rules cover application requirements and conditions for electronic databases of records of derivative transactions. They also regulate the manner in which repositories provide their services, and ASIC's approach to regulation of overseas-based repositories. The Rules are largely consistent with international requirements. The Reporting Rules have staggered compliance dates, depending on the classification of the relevant entity and the type of derivative. Reporting for Australian entities began on October 1, 2013. The Bank will start reporting on April 1, 2014.

Future of Financial Advice Reforms

The Australian financial services industry in which the Bank operates is subject to a range of laws and regulations which have been subject to increasing regulatory compliance. In particular, many industry observers consider that the Future of Financial Advice, or "FoFA", reforms implemented under the previous Federal Government will have wide reaching impacts on the Australian financial services industry. The FoFA reforms could have an adverse impact on the Bank's business, prospects and financial condition. In addition to these risks, compliance with the new FoFA requirements could also lead to increased costs.

Additional 'best interest' and scaled advice disclosure is now required when bank staff are providing advice on bank accounts. Implementation required process changes, system changes, staff training, document changes and monitoring activities to ensure compliance.

Considerable uncertainty remains concerning the full extent of the FoFA reforms and their impact on the financial services industry. Certain of the FoFA obligations and restrictions are still subject to grandfathering relief. In addition, the recently elected Coalition Government has announced an intention to reverse a number of the FoFA reforms enacted by the previous government.

Australia's financial system inquiry

On December 20, 2013, the Australian government released the final terms of reference for its inquiry into the Australian Financial System ("Inquiry"). Among its considerations, the Inquiry has been asked to report to the Australian government on: (i) how the Australian financial system can more efficiently allocate Australian sourced capital to minimize Australia's exposure to volatility in global capital markets; (ii) how Australia can best balance competition, innovation and efficiency, with stability and consumer protection; (iii) the consequences of financial regulation, including its impact on compliance costs, flexibility, innovation and financial services trade; (iv) the corporate governance structures across the financial system and how they affect stakeholder interests; and (iv) the international integration (including international financial regulation) of Australia's financial system.

It is expected that following extensive consultations in the first half of 2014, the Inquiry will publish an interim report in mid-2014 setting out its initial findings. It is expected that a final report from the Inquiry to the Australian government will be submitted by November 2014. The Inquiry is only at its very preliminary stages. It is not possible, at this stage, to predict with any certainty the impact the Inquiry will have on the reforms that will be adopted by the Australian Government and, in particular, their impact on the capital structure or businesses of the Bank.

The outcomes of the above and other Australian Government or regulatory reviews and changes, including various workers' compensation schemes, the taxation system and various reforms proposed or already implemented for various Federal and State judicial systems, may impact the Bank's operations.